



Global Fixed Income Strategy

SEPTEMBER 2026

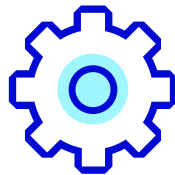
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Recent yen weakness has prompted one of the largest coordinated currency interventions in more than a decade. But despite its scale, intervention alone may not change the yen's trajectory.



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Amid this year's record hyperscaler issuance, we favor selectivity over broad exposure. While hyperscaler credit quality remains strong, the scale and duration of AI-related financing will likely keep pressure on investment-grade spreads.



9 Rates and currency outlook

Major rates and currencies 3-month outlook

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



13 The bottom line

Stablecoins and high yield EMs – unexpected remedy for economic instability?

In July, Bolivian policymakers announced they are considering formally recognizing a US dollar-backed stablecoin alongside the boliviano. Our EM strategist explains how stablecoin adoption in high yield EMs could signal policy problems – or progress.

Global macro strategy

Can Japan reverse the yen's decline?

Key takeaways

- **Recent yen weakness has prompted one of the largest coordinated currency interventions in more than a decade.** But despite its scale, intervention alone may not change the yen's trajectory.
- **While policymakers have shown willingness to defend the currency, we believe the yen's path will depend on macro factors,** such as risk sentiment, global growth expectations and interest rate differentials and the willingness of the Bank of Japan to accelerate its hiking cycle at the upcoming September meeting.
- **The yen has also been weighed down by a perception that Japanese monetary and fiscal policy are incoherent,** with some fearing fiscal dominance, as the government discourages monetary tightening to support on-going spending. Reaffirming the BoJ's independence and reinforcing Japan's fiscal credibility would likely build investor confidence, supporting the yen over the long term.

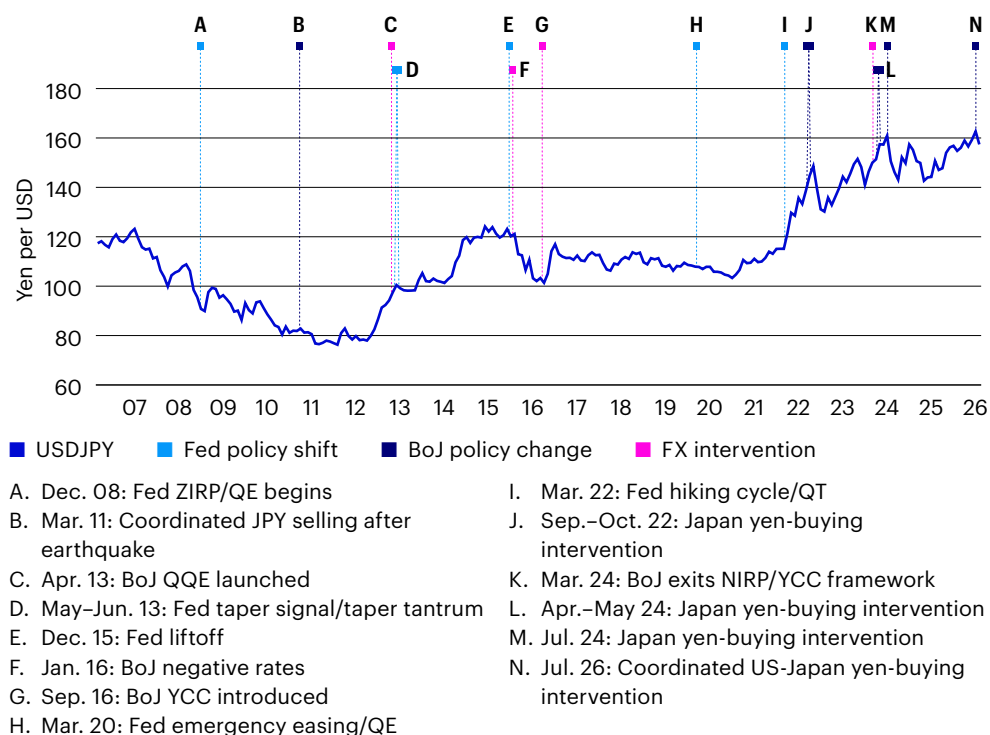
A historic intervention

Japan recently conducted its largest currency intervention since 2011, with the Ministry of Finance alongside the US Treasury reportedly selling billions of US dollars and euros against the yen. The intervention was notable both for its scale and for the fact that it was coordinated with the US authorities, a rarity outside periods of market stress and the first such joint effort since the aftermath of Japan's 2011 earthquake.

The initial market reaction appeared encouraging. The yen strengthened against the US dollar and the euro. However, the move quickly lost momentum, with much of the gains subsequently retraced.

For investors, this pattern highlighted a familiar reality: intervention can affect the exchange rate in the short run, but it is far less effective at altering underlying market trends. The partial reversal served as a reminder that even exceptionally large interventions struggle to overcome the macroeconomic forces driving capital flows and investor behavior.

Figure 1: USD/JPY: intervention and policy regime shifts



Source: Bloomberg L.P. Data from Sept. 29, 2006 to July 31, 2026. ZIRP is zero interest rate policy. QE is quantitative easing. NIRP is negative interest rate policy. QQE is quantitative and qualitative monetary easing. YCC is yield curve control. QT is quantitative tightening. FX is foreign exchange.

Will the intervention work?

We believe intervention alone is unlikely to deliver a major sustained appreciation in the yen. Currency interventions are most successful when they reinforce existing macroeconomic forces. Today, however, those underlying forces continue to favor a weaker yen. Japan remains an outlier among major economies, with low nominal interest rates, deeply negative real rates, and capital continuing to flow toward higher-yielding foreign assets.

The recent experience illustrates this challenge. Policymakers demonstrated a willingness to deploy substantial resources in support of the currency, yet investors quickly returned their attention to interest-rate differentials and growth prospects. As a result, intervention appears more likely to smooth volatility and slow depreciation than to permanently reverse the trend.

The global forces keeping the yen weak

Several powerful global factors continue to weigh on the currency:

Interest rate differentials

The most important driver remains the gap between Japanese short-term interest rates and those available elsewhere. While the Bank of Japan (BoJ) has begun normalizing policy, Japanese rates remain low relative to those in the US and many other developed markets. Moreover, Japanese real rates remain deeply negative, with policy rates at 1% while underlying inflation is closer to 2%.¹ Japan is no longer an outlier with very low inflation, its inflation rate is not far from eurozone levels, but interest rates are substantially lower. Investors therefore continue to find foreign assets attractive, encouraging capital outflows and creating persistent pressure on the yen.

Historically, the yen has been highly sensitive to movements in relative yields, and that relationship remains intact today. Importantly, while markets expect the BoJ to continue tightening, other central banks are also maintaining relatively elevated policy rates. As a result, the differential that has weighed on the yen has narrowed only modestly and not enough to generate a major structural move higher in the currency.

1. Source: Bloomberg L.P. Data as of Aug. 20, 2026.

Strong global growth

The current global growth backdrop also works against the yen. Risk sentiment remains constructive and growth expectations remain relatively healthy, particularly given continuing enthusiasm surrounding AI-related investment, semiconductor spending, and broader infrastructure build-outs. In such an environment, investors tend to favor higher-yielding assets and currencies rather than defensive safe havens such as the yen.

As long as investors remain optimistic about global growth and AI-driven investment themes, Japanese institutions could have compelling reasons to continue allocating capital abroad rather than repatriating funds back to domestic markets.

Energy prices

Japan's dependence on imported energy also remains a challenge. Elevated energy prices worsen Japan's terms of trade and increase the flow of funds leaving the country to pay for imports. Higher energy costs therefore represent another structural headwind for the currency.

Taken together, strong global growth, elevated yields, and higher energy prices create an environment that is not naturally supportive of significant yen appreciation, in our view.

What needs to change?

For the yen to strengthen sustainably, the current policy and macroeconomic mix must evolve, in our view. Most importantly, markets need to see a narrowing of interest-rate differentials.

That could occur through:

1. More aggressive tightening by the BoJ
2. Lower policy rate expectations in the US and other developed markets
3. Slower global growth that reduces demand for higher-yielding foreign assets

The BoJ appears somewhat behind the curve, in our view. Lending growth has improved, wages are accelerating, inflation may be stronger than headline figures suggest because government subsidies suppress some inflation measures, and real interest rates remain deeply negative. These factors have contributed to growing speculation that the BoJ could ultimately be forced to move more aggressively than currently expected.

Potential support could also come from domestic investor repatriation. Japan may encourage the Government Pension Investment Fund (GPIF), which manages almost two trillion in assets, to increase allocations to domestic assets. Such a shift could generate meaningful repatriation flows and support the yen over time. However, this move would likely supply a long-term tailwind rather than an immediate catalyst, since any allocation changes would likely occur gradually and potentially not before the next fiscal year, starting in April 2027.

The fiscal dominance question

A particularly important issue is whether Japan is drifting toward a form of fiscal dominance. The government has announced a series of tax cuts, subsidies and investment programs designed to offset the impact of higher energy prices and boost longer term growth. The jump in long-term Japanese government bond yields reflects concerns about the additional bond supply and the inflationary consequences of these policies. While the BoJ is attempting to normalize interest rates, fiscal stimulus could continue supporting demand, credit growth, and inflation.

This creates an important question: Can the BoJ tighten monetary policy forcefully enough if fiscal policy remains highly expansionary? If markets conclude that the BoJ is unwilling or unable to tighten sufficiently, confidence in a sustained yen recovery could weaken further.

Conversely, a convincing acceleration in tightening could help alleviate those concerns, demonstrating that monetary policy remains independent and focused on anchoring inflation expectations.

Why September matters

Against this backdrop, September could prove to be a pivotal moment. The September BoJ meeting follows immediately after the US Federal Reserve (Fed) meeting, creating the potential for significant volatility.

Markets will likely be focused on whether the BoJ signals:

- A faster pace of tightening
- Greater confidence that inflation is sustainable
- A willingness to move policy rates higher despite concerns about growth
- A commitment to continue tightening even if fiscal policy remains expansionary

Market perceptions could shift meaningfully if the BoJ moves to a faster cadence of rate hikes and signals that additional tightening is likely. Such a shift could convince investors that the BoJ is no longer behind the curve and is prepared to narrow Japan's large rate disadvantage.

Conversely, if the BoJ remains cautious while global growth stays firm and overseas yields remain attractive, investors may conclude that intervention was merely a temporary measure rather than the beginning of a broader policy shift.

Implications for fixed income investors

For fixed income investors, the yen's trajectory remains fundamentally tied to the relative direction of monetary policy rather than foreign-exchange intervention, in our view.

The recent intervention demonstrated policymakers' discomfort with yen weakness, but it did not change the underlying drivers of the currency. A sustained recovery likely requires a narrower interest rate differential, driven by a combination of tighter BoJ policy and lower US and European rate expectations, supportive institutional flows, and moderation in global growth and risk sentiment.

The broader fiscal dominance debate adds an additional layer of complexity. We are increasingly assessing not just whether the BoJ will tighten, but whether monetary policy can remain sufficiently restrictive in the face of an ambitious growth-oriented fiscal agenda.

Ultimately, the yen's future will likely depend less on how much Japan intervenes and more on whether markets become convinced that Japan's policy mix is genuinely shifting. Until those conditions emerge, the currency is likely to continue facing structural headwinds, leaving the September BoJ meeting as an important near-term catalyst for global rates and currency markets.

Rahim Shad
Senior Portfolio Manager

Bixby Stewart
Head of US Investment
Grade Research

Jamie Russell
Senior Credit Analyst

Mike Breuer
Senior Credit Analyst

Global credit strategy

The AI financing shock: How hyperscaler debt issuance is reshaping credit markets

Key takeaways

- **Credit markets have absorbed this year's AI-related supply, but it's starting to come at a price:** Oversubscription ratios have fallen and new-issue concessions have widened. This reflects supply pressures rather than deteriorating fundamentals.
- **We believe investment implications now favor selectivity over broad exposure.** While hyperscaler credit quality remains strong, the scale and duration of AI-related financing are likely to keep pressure on investment-grade spreads.
- **We favor a focus on issuer selection, maturity discipline, tactical participation in new issues and opportunities in AI-linked infrastructure sectors, while remaining cautious on long-duration investment-grade exposure.**

A new regime for fixed income investors

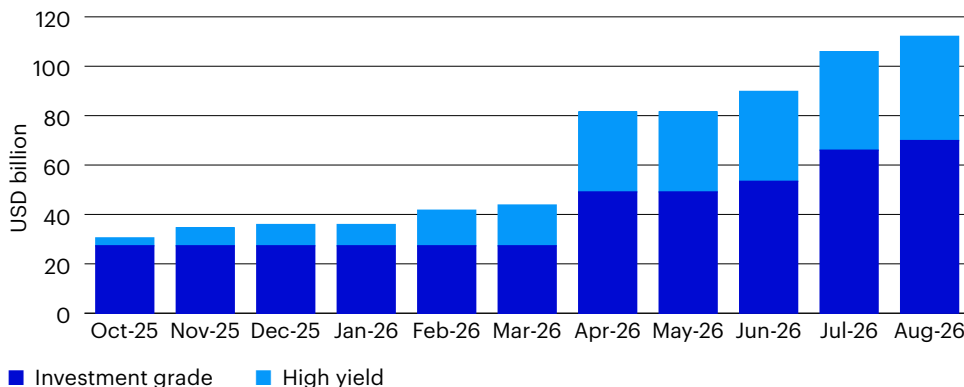
Fixed income markets may be entering one of the most important structural transitions of the post-global financial crisis era. The rapid build-out of artificial intelligence infrastructure is no longer simply an equity-market narrative funded entirely by robust hyperscaler cash flows. It has become a defining feature of investment grade credit supply, with direct implications for spreads, portfolio construction, market liquidity and the long-term absorptive capacity of global bond markets.

The scale of issuance is already historic. In 2026, hyperscalers Microsoft, Alphabet, Amazon, Meta, Oracle, and related issuers, including SpaceX and Nvidia, have raised approximately USD182 billion in US dollar-denominated bonds, or roughly USD218 billion on a multi-currency basis.² Year-to-date issuance has surpassed full-year 2025 levels and has set new records both in absolute dollars and as a share of the broader investment grade market. Sell-side forecasts for full-year investment grade supply have moved materially higher, with estimates reaching as much as USD2.1 trillion, driven disproportionately by technology-related financing needs.³

The more consequential point is that 2026 is unlikely to represent the end of the cycle. Contracted compute demand through 2030 implies an estimated USD4.5 trillion of cumulative capital expenditure.⁴ At prevailing financing ratios — with roughly 35 percent funded through public markets — approximately USD1.5 trillion could be intermediated through investment grade, high yield, structured credit, and private markets over the next four years.⁵ We estimate that roughly USD1 trillion of that total could ultimately reside in the investment grade market.

Figure 1: AI infrastructure capex and financing has focused on data centers

Total data center bonds outstanding by month (USD bn)



Source: Company filings, Barclays Research. Data as of Aug. 20, 2026. August is MTD issuance.

2. Source: Invesco, Bloomberg L.P. Data as of Aug. 20, 2026.

3. Source: Morgan Stanley. Data as of Aug. 20, 2026.

4. Source: Invesco estimate based on current average build costs and compute growth. Data as of Aug. 20, 2026.

5. Source: Invesco estimate based on issuance trends 2025-2026. Data as of Aug. 20, 2026.

Market absorption: Demand remains healthy, but no longer indiscriminate

The central question for credit investors is no longer whether the market can absorb large individual transactions. It is whether the market can absorb repeated mega-deal supply without requiring a durable repricing of risk. The first half of 2026 suggested impressive demand resilience, with spreads remaining near cycle tight even as issuance accelerated. More recent trading, however, indicates that demand remains healthy but has become significantly more price-sensitive.

Order book depth has deteriorated meaningfully. Oracle's February transactions were more than four times oversubscribed; by July, Amazon's transaction achieved only 1.6 times coverage, roughly half the demand generated by its March deal.⁶ New issue concessions have adjusted accordingly. Oracle's early-year transactions priced with negative concessions, while Amazon's July offering required approximately 15 basis points to clear.⁷ Nearly every 2026 mega-deal now trades wider in the secondary market.

This repricing has left technology spreads at 20-year wides relative to the broader investment grade index, after years of trading inside the benchmark.⁸ Importantly, we view this as a technical repricing rather than evidence of broad fundamental deterioration.

The early-August Google transaction provides an important counterpoint. The company issued a USD25 billion, 10-tranche deal that attracted the third-largest peak order book on record for US investment grade credit at 4.5 times oversubscribed, with bonds tightening 4 to 9 basis points from reoffer.⁹ The transaction benefited from a roughly 30-day pause in mega-deal supply. The lesson is clear: the market can still absorb size, but it increasingly requires time, structure, and compensation.

Credit quality: Impressive but increasingly nuanced

The fundamental starting point remains strong. Hyperscaler credit profiles are among the highest quality in the investment grade universe. Microsoft carries Aaa/AAA ratings with leverage of approximately 0.6 times debt-to-EBITDA.¹⁰ Alphabet's leverage is approximately 0.4 times.¹¹ Amazon, at roughly 1.2 times leverage, retains A1/AA ratings and benefits from substantial enterprise value.¹² Pre-emptive equity funding, including Alphabet's approximately USD85 billion of year-to-date issuance, is an additional creditor-positive factor.¹³

Near-term liquidity also remains robust. The five largest hyperscalers are fully funded for 2026, with an estimated USD273 billion of excess liquidity after projected capital expenditure and dividend obligations.¹⁴ From a bondholder's perspective, the near-term credit profile remains constructive.

That said, the trajectory deserves scrutiny. Alphabet reported negative free cash flow for the first time since the first quarter of 2003, as capital expenditure doubled year-over-year. Amazon's free cash flow is already negative at approximately USD2 billion.¹⁵ Capital expenditure guidance continues to move higher, with Google's 2026 estimate rising from roughly USD150 billion to USD200 billion and 2027 projections approaching USD270 billion.¹⁶

The return-on-investment evidence is encouraging but not conclusive. Graphics Processing Unit (GPU) pricing is up 25 to 28 percent year-to-date.¹⁷ Agentic token usage has increased approximately 14 times since January.¹⁸ Frontier model annual recurring revenue is approaching USD100 billion to USD125 billion.¹⁹ Older chip models are producing unexpected margin support as depreciation rolls off while demand persists. These data points suggest that the capital being deployed is generating economic value; the open question is whether that value scales quickly enough to fund the next phase of investment internally.

6. Source: Invesco. Data as of July 7, 2026.
7. Source: Invesco. Data as of July 7, 2026.
8. Source: ICE BofA US Corporate Index. Data as of Aug. 20, 2026.
9. Source: Invesco. Data as of Aug. 6, 2026.
10. Source: Invesco. Data as of Aug. 20, 2026.
11. Source: Invesco. Data as of Aug. 20, 2026.
12. Source: Invesco. Data as of Aug. 20, 2026.
13. Source: Invesco. Data as of Aug. 20, 2026.
14. Source: Invesco. Data as of Aug. 20, 2026.
15. Source: Invesco. Data as of Aug. 20, 2026.
16. Source: Invesco. Data as of Aug. 20, 2026.
17. Source: Silicon Data GPU Rental Index, Bloomberg L.P. Data as of August 20, 2026.
18. Source: OpenRouter. Data as of August 7, 2026.
19. Source: Anthropic, OpenAI. Data as of August 2026.

The strategic debate: Temporary boom or structural regime change?

Our base case is that investors should treat this as a multi-year funding cycle rather than a one-off supply event. Hyperscalers increasingly appear willing to issue at scale, with limited sensitivity to spread levels, to secure strategic compute capacity. If that behavior persists for the next three to four years, the first-order impact is likely to be sustained pressure on investment grade spreads, with potential second-order effects across structured credit, high yield, and even Treasury term premia.

A more benign path is still plausible. If AI-related cash flows accelerate, capital expenditure peaks in 2027 or 2028, and investors gain confidence in a terminal issuance profile, spreads could normalize quickly. The analogy to post-crisis bank TLAC issuance is instructive: sustained supply pressure weighed on bank spreads until the market could quantify the endpoint.²⁰ Once that endpoint became visible, risk premia compressed. Visibility, not simply volume, will likely determine the ultimate spread outcome.

Positioning and implications

We are underweight US investment grade, driven by technical rather than fundamental considerations. Credit fundamentals remain solid, with second-quarter earnings growth tracking approximately 32 percent year-over-year.²¹ The allocation stance reflects a market being asked to digest four transactions of USD25 billion or more in roughly two months while maintaining historically tight spread levels. That is increasingly difficult.

The investment implication is that the easy beta trade in AI-related credit has passed. Future returns are likely to depend on issuer selection, maturity discipline, tactical new issue participation, and careful concession capture. We prefer front-end exposure to long-duration hyperscaler risk and see value in maintaining CDX hedges should technical pressure intensify.²²

For high yield investors, the AI infrastructure build-out remains more constructive than adverse, in our view. Industrial companies tied to data center construction, power generation, electrical equipment and other enabling infrastructure should continue to benefit from fundamental tailwinds. Software remains the more vulnerable area, though its relatively small index weight limits broader systemic implications.

Conclusion

The hyperscaler financing cycle is a defining test for credit markets. The evidence so far suggests that investors can absorb the supply, but only at wider clearing levels, with greater issuer dispersion and less tolerance for poorly timed or insufficiently compensated transactions.

The question that may shape credit performance over the next two years is not simply whether growth slows or fundamentals weaken. It is whether the capital demands of AI infrastructure exceed the traditional absorptive capacity of fixed income markets. In our view, this is not primarily a credit-cycle story. It is a capital allocation regime change, and it requires investors to evaluate supply, liquidity, and market structure with the same rigor historically reserved for fundamentals.

20. TLAC is Total Loss-Absorbing Capacity. It is a post-financial crisis regulatory requirement designed to ensure that the world's largest banks have enough capital and eligible debt to absorb losses and be recapitalized if they fail, without requiring taxpayer bailouts.

21. Source: Invesco. Data as of Aug. 20, 2026.

22. CDX stands for Credit Default Swap Index. A credit default swap (CDS) is a contract that provides protection against the default of a borrower.

Rob Waldner

Co-Head of Invesco Fixed
Income and CIO

James Ong

Head of Macro and
Quantitative Research

Gareth Isaac

Head of Global Multi-Sector

Tom Sartain

Senior Portfolio Manager

Michael Siviter

Senior Portfolio Manager

Yi Hu

Head of Asia Credit
Research

Interest rate outlook

US: Neutral

We maintain a neutral stance on US interest rates. The bond market is pricing close to two Fed rate hikes over the next year, while we expect policy rates to remain on hold — recent inflation prints have come in at or below expectations, payrolls have softened and the Fed delivered dovish commentary at its last meeting without hiking, despite markets pricing a 30% chance of a hike. Under normal circumstances, this mispricing of the front end would warrant a more constructive duration view. However, the fundamental backdrop for longer-term rates remains challenging. Elevated geopolitical risk around Middle East energy routes continues to put upward pressure on long-term inflation expectations and risk premiums. Additionally, Chair Warsh's commentary on potentially changing the Fed's inflation measurement framework — while dovish in the near term — has not contained nominal growth expectations, and the surge in long-dated investment grade and hyperscaler issuance is adding complementary duration supply that compounds term premium pressure in 10s and out. We therefore remain neutral on the 10-year Treasury, with any constructive rate view expressed via front-end positioning (2s–5s) and curve steepeners. A change in our stance would likely require either a more concretely hawkish Fed that anchors long-run inflation expectations, or a genuine resolution of geopolitical risks — neither of which appears imminent.

Europe: Neutral

The European Central Bank (ECB) has delivered the most hawkish reaction among major central banks to the rise in energy prices following the US-Iran conflict. The most recent ECB meeting confirmed that a September hike is likely, and the market is now pricing in additional risk premium for further policy tightening. Yields are beginning to look attractive with elevated hike pricing and higher long-term premium. However, we remain neutral for now, given the ECB's concern that repeated negative supply shocks, combined with weak productivity growth, could keep inflation above target for longer. Higher energy prices will likely necessitate fiscal support measures from eurozone governments and calls for greater defence and energy transition-related spending have intensified - all of which would likely increase long-end bond risk premia.

China: Overweight

We continue to be positive on Chinese onshore government bonds and expect the bonds to outperform developed market peers in the coming months. Supportive macro policies, still relatively lukewarm domestic demand and strong export growth are expected to contribute to demand for central government bonds. The central bank has started overnight reverse repurchase operations and highlighted that loan growth is expected to be of lower quantity but higher quality. Overall financial conditions need to be assessed with the combination of both loans and bond issuance. The housing provident fund has recently been allowed to invest in policy bank bonds for the first time, which continues to show policy makers' supportive stance. We view Q4 as a potential window for further easing measures if needed.

Japan: Neutral

Japanese interest rates have continued to move higher, with 10-year yields reaching a 30-year high earlier this month.²³ Domestic dynamics remain relatively bearish for bonds. The government has announced further fiscal easing through a cut to the value-added tax on food and the rollout of an ambitious 15-year investment plan, but it has yet to credibly identify funding sources. Meanwhile, inflation has reaccelerated, wage growth continues to trend higher, and the yen is little changed, despite significant intervention by the US and Japanese authorities.

However, markets are now pricing in more front-loaded BoJ tightening, with an 80% probability of a rate hike at the September meeting and a cumulative 40 basis points of hikes priced by year-end 2026.²⁴ As a result, the scope for further front-end repricing appears limited, even if the BoJ meets expectations and shifts to quarterly rate hikes rather than hiking every six months. The upcoming budget discussions will likely be an important driver of longer-term yields, although concerns around fiscal slippage are

23. Source: Bloomberg L.P. Data as of Aug. 20, 2026.

24. Source: Bloomberg L.P. Data as of Aug. 20, 2026.

already elevated, potentially limiting their impact. In addition, further developments related to Government Pension Investment Fund asset allocation changes could lead to increased inflows into Japanese government bonds.

UK: Overweight

Gilt yields are close to recent highs, despite benign inflation and wage data, and a relatively dovish July Bank of England (BoE) meeting, as the yield curve bear steepened over the month. The rise in long-dated yields mirrors moves across other developed bond markets and is likely driven by concerns over continued heavy government issuance and, more significantly, a wave of AI-related corporate issuance competing for capital. This dynamic is unlikely to change in the near term.

However, if energy prices remain range-bound and evidence of second-round inflation effects continues to be limited, current front-end yields appear relatively attractive, in our view. The market is now fully pricing 60 basis points of hikes through the end of 2027, which represents a relatively generous risk premium, given the BoE's current bias to keep rates unchanged unless second-round effects from higher energy prices become more evident.

The outlook for the long end is more complex. Markets are likely to remain cautious ahead of the 28 October Budget, limiting scope for any meaningful reduction in risk premium. Fiscal slippage has so far been relatively limited, supported by better-than-expected growth. However, any perception that the government may soften its commitment to fiscal rules could trigger further repricing.

The BoE is expected to announce a reduction in active gilt sales in 2027 at its September meeting, which could ease some pressure on the long end. However, global term premium dynamics and ongoing concerns around the Budget are likely to outweigh this modest technical support.

Australia: Overweight

Australian government bond yields are approaching recent highs, with 10-year yields now above 5%.²⁵ The selloff has largely mirrored price action in US and European markets, reflecting the dominance of global rather than domestic factors. While further global competition for capital, driven by loose fiscal policy and increased corporate issuance related to AI capex, could push long-end real yields higher, current valuations are becoming attractive on both an outright and cross-market basis, in our view. Domestically, inflation and wage data have been somewhat softer than expected, raising the bar for further Reserve Bank of Australia (RBA) rate hikes. The market continues to price in around 18 basis points of hikes through the end of Q1 2027, but this risk premium is likely to fade if the data remain on their current trajectory.²⁶ Australian rates are now the highest among developed markets and sit within territory the central bank considers restrictive. Although domestic data remain resilient, there are signs that higher interest rates are affecting interest-sensitive sectors, such as housing. In addition, Australia's strong fiscal position should provide some insulation from concerns over fiscal policy excesses in markets like the US, UK and France.

25. Source: Bloomberg L.P. Data as of Aug. 20, 2026.

26. Source: Bloomberg L.P. Data as of Aug. 20, 2026.

Rob Waldner

Co-Head of Invesco Fixed
Income and CIO

James Ong

Head of Macro and
Quantitative Research

Gareth Isaac

Head of Global Multi-Sector

Tom Sartain

Senior Portfolio Manager

Michael Siviter

Senior Portfolio Manager

Yi Hu

Head of Asia Credit
Research

Currency outlook

USD: Neutral

Recent US data, such as employment and inflation prints, have reduced pressure on the Fed to hike rates. The question of Fed credibility has also crept back into the market narrative, given the mixed reviews of Fed Chair Warsh's appearance at the most recent Federal Open Market Committee press conference. The US intervention in the yen has alarmed some US dollar bulls and the lack of further escalation of the war in Iran has reduced safe-haven currency demand. As such, we have downgraded our stance on the dollar from overweight to neutral.

EUR: Underweight

We expect European currencies to be laggards, as growth in the region continues to be lacklustre and negative rate differentials will likely weigh on the currencies. Elevated gas prices also present a downside risk.

RMB: Overweight

We are overweight the renminbi over the medium term. Recent developments in the US and Europe are likely to further support the renminbi's strength. Central Bank Governor Pan said at the China Development Forum that China has no need or intention to use currency depreciation to gain a trade advantage. We expect China to facilitate more international investment in Chinese capital markets and further improve arrangements for renminbi cross-border use. This is in addition to the substantial Chinese trade surplus recorded year-to-date.

JPY: Neutral

At the end of July, the Japanese and US authorities conducted the largest intervention in the Japanese currency market since 2011. The intervention initially drove a 5% appreciation of the yen against the US dollar and a 4% appreciation against the euro.²⁷ However, the yen has since surrendered almost half of its gains against the dollar and virtually all of its gains against the euro. While intervention may help limit further yen weakness in the near term, a sustained and meaningful appreciation is likely to require a broader shift in the macroeconomic environment. At present, relatively strong global growth, a supportive risk backdrop, and elevated energy prices are not conducive to yen strength. Further BoJ rate hikes are expected, but if they remain reactive to upside inflation surprises and modest relative to moves by other major central banks, they are unlikely to materially improve the attractiveness of the yen. A more supportive environment for yen appreciation would likely involve weaker global growth and risk sentiment, alongside renewed expectations for interest rate cuts in the US and Europe. Neither of these conditions appears likely in the near term. In addition, Japanese government policy will likely need to become more coherent by reinforcing BoJ independence and strengthening the credibility of fiscal policy. This would likely help restore investor confidence in Japanese assets, particularly Japanese government bonds.

GBP: Underweight

The British pound has appreciated by 1.5% against the US dollar over the past month but has underperformed the euro and yen by 0.8%.²⁸ While relatively high yields continue to provide support, this appears to be largely reflected in current valuations.

If the BoE remains on hold and growth slows in the second half of the year, as fiscal consolidation, higher interest rates and elevated energy prices weigh on spending, the pound is likely to lag. In addition, there is little political risk premium embedded in valuations, leaving the currency exposed to downside risks ahead of the 28 October Budget.

The pound has also benefited from strong merger and acquisition-related inflows, which have accelerated sharply year to date. While these flows may continue, reliance on them highlights the currency's pro-cyclical nature. A weaker risk environment could leave the pound more vulnerable to a repricing.

27. Source: Bloomberg L.P. Data as of Aug. 20, 2026.

28. Source: Bloomberg L.P. Data as of Aug. 20, 2026.

AUD: Overweight

The Australian dollar should remain well supported by relatively high short-term interest rates, resilient domestic growth, and elevated commodity prices. While the RBA is unlikely to raise rates significantly from current levels, near-term rate cuts also appear unlikely given the strength of the domestic economy and persistent inflation concerns. This should help preserve the Australian dollar's yield advantage over the US dollar and other major currencies. Elevated commodity prices should continue to support Australia's terms of trade, particularly relative to energy importers in Europe and Asia. In addition, as the US dollar's safe-haven status comes under greater scrutiny due to the fallout from the Iran war, Fed Chair Warsh's inconsistent communication, and Secretary Bessent's efforts to influence the US Treasury yield curve, the Australian dollar may become an increasingly attractive positive-carry alternative. Positioning appears relatively light, leaving scope for further Australian dollar appreciation. The main risk is a significant downside shock to global growth, which would likely weigh on commodity prices and potentially trigger rapid RBA rate cuts. However, this scenario appears unlikely at present.



Daniel Phillips

Senior Emerging Market
Strategist

The bottom line

Stablecoins and high yield EMs — unexpected remedy for economic instability?

In July, Bolivian policymakers took a bold step, announcing they are evaluating whether to be the first country to formally recognize the US dollar-backed stablecoin, Tether (USDT), as a means of payment alongside the boliviano and US dollar. We talk with Senior Emerging Market Strategist, Daniel Phillips about Bolivia's move and the implications of stablecoin adoption more broadly in high yield emerging markets (EM).

Q: Why are stablecoins becoming important for EM investors?

A: Stablecoins are evolving from a fintech development into a macroeconomic and sovereign-credit issue. Stablecoin adoption tends to be strongest in countries where inflation is elevated, access to foreign currency is constrained and confidence in domestic institutions or the local currency is weak. Argentina, Venezuela, Nigeria and Lebanon have all experienced increased stablecoin usage following currency, banking, debt or balance-of-payments crises. For investors, this means stablecoin adoption can provide an early sign of economic stress. Stablecoins do not necessarily create instability, but they can reveal existing vulnerabilities sooner, and intensify the pressure on policymakers to address them.

Q: Why is Bolivia an important example?

A: Bolivia illustrates how stablecoin adoption can move ahead of government policy. The proposal largely acknowledged the reality that Bolivian households and businesses, including the state-owned oil and gas company, had already begun using USDT as a store of value and means of payment. As confidence in the boliviano has declined and access to US dollars has deteriorated amid economic stress and capital controls, stablecoins have provided a relatively accessible route into dollar-linked assets - with only a mobile phone and internet connection.

Q: How do stablecoins function as an “escape valve” in weaker economies?

A: Stablecoins provide households and businesses with digital access to assets generally pegged one-to-one to the US dollar. Traditionally, people seeking to move out of a local currency had to use the banking system, subject to government controls, or rely on physical cash, which could be difficult and risky. Stablecoins create another channel that may be harder for capital controls to contain.

Citi forecasts that total stablecoin issuance could reach between USD1.9 trillion and USD4.0 trillion by 2030.²⁹ An S&P survey also found that 11 EM countries, representing 18% of the JPMorgan Emerging Market Bond Index Global Diversified by market weight, could see stablecoin adoption reach as much as 10% of GDP over the next five years.³⁰ The potential could be even greater in high-inflation countries with capital controls.

Q: What is the near-term risk from greater stablecoin adoption?

A: In the near term, stablecoins can erode monetary sovereignty and destabilize already-fragile policy regimes more quickly. The countries most exposed are likely to be those with high inflation, negative real interest rates, foreign-currency shortages, large fiscal deficits, weak banking systems or a history of relying on capital controls.

The exposure is material: approximately half of the market capitalization of the EM high yield index represents countries with capital controls. If stablecoins make those controls less effective, governments may lose some ability to contain capital flight or support demand for local currency. Increased adoption could accelerate bank-deposit flight, weaken local-currency assets, reduce seigniorage revenue and expose balance-of-payments vulnerabilities. In this sense, stablecoins could transmit a loss of confidence more rapidly through the financial system.

29. Source: Citi, Technology & Innovation, Stablecoins 2030. Sep. 25, 2025.

30. Source: S&P Global, What Growing Adoption Of Foreign Currency Stablecoin Means For Emerging Markets. Jan. 20, 2026.

Q: Could stablecoins ultimately improve economic policy?

A: Potentially. Stablecoins are both a pressure valve and a disciplining force. Although they can increase near-term vulnerability, the currency competition they introduce may heighten the importance of price stability, financial-system soundness and fiscal sustainability.

Stablecoins can impose market discipline by rewarding countries with credible macroeconomic frameworks and penalizing those that allow monetary credibility to deteriorate. In extreme cases, they may force governments to confront imbalances sooner than they otherwise would. Bolivia is an example in which widespread organic adoption placed the government in a position where it had to consider formally recognizing the new financial reality. If capital controls become ineffective, policymakers may ultimately have to replace them with policies capable of attracting and retaining capital through stability, effectiveness and credibility.

Q: What is the principal takeaway for high yield EM investors?

A: We believe stablecoin adoption should increasingly be monitored alongside traditional macroeconomic indicators such as inflation, real interest rates, fiscal balances, foreign-exchange reserves, banking-system strength and external financing needs. Rapid adoption may signal that households and companies are losing confidence in the domestic currency or policy framework. It could therefore warn of intensifying capital flight, weaker monetary control or emerging balance-of-payments stress.

At the same time, adoption may eventually precede constructive reform by forcing governments to strengthen economic policy and monetary credibility. In our view, investors must therefore assess both sides of the stablecoin story: near-term destabilization and the potential for medium-term policy improvement. The key question is not simply whether stablecoin usage is rising, but whether policymakers respond by delaying adjustment or by adopting more credible and sustainable economic frameworks.

Invesco Fixed Income Team contributors

Senior Editor—Ann Ginsburg

Atlanta

Rob Waldner

Co-Head of Invesco Fixed Income and CIO
+1 404 439 4844
robert.waldner@invesco.com

James Ong

Head of Macro and Quantitative Research
+1 404 439 4762
james.ong@invesco.com

Rahim Shad

Senior Portfolio Manager
+1 404 439 4782
rahim.shad@invesco.com

Bixby Stewart

Head of US Investment Grade Research
+1 404 439 4832
bixby.stewart@invesco.com

Jamie Russell

Senior Credit Analyst
+1 404 439 4694
jamie.russell@invesco.com

Mike Breuer

Senior Credit Analyst
+1 404 439 3107
michael.breuer@invesco.com

Daniel Phillips

Senior Emerging Market Strategist
+1 404 439 4818
daniel.phillips@invesco.com

Ann Ginsburg

Head of Strategy and Insights Fixed Income
+1 404 439 4860
ann.ginsburg@invesco.com

London

Gareth Isaac

Head of Global Multi-Sector
+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

Hong Kong

Yi Hu

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

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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.

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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

All information is sourced from Invesco, unless otherwise stated.

All data as of August 21, 2026, unless otherwise stated. All data is USD, unless otherwise stated.

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