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### Overview

- Investor sentiment toward emerging market (EM) debt has turned positive, supported by steady inflows and improving performance.
- Demand for non US assets is rising amid high US asset concentrations, policy uncertainty, and a weakening dollar.
- EM bond flows turned positive in 2025 after three years of outflows.
- Momentum has continued into 2026, with six months of consistent inflows pointing to structural reallocation versus a tactical rebound.

### Invesco Fixed Income

March 2026

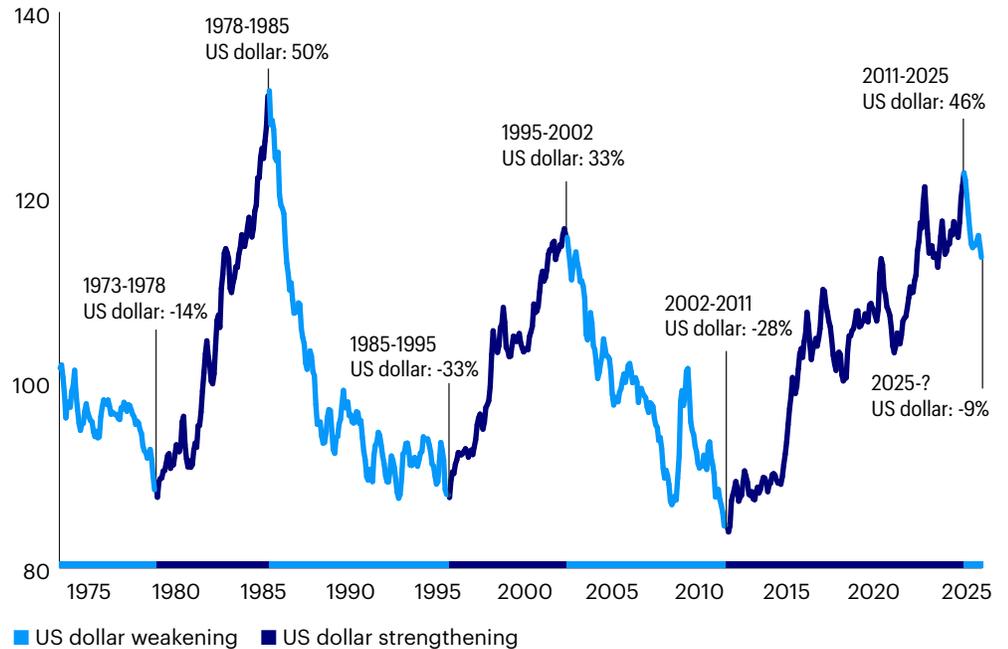
## Shifting sentiment - positive flow picture for EM debt

Investment flows into EMs have been strong, especially portfolio flows driven by the search for alternatives to US assets. After a period when EM assets were largely ignored, the pickup in EM flows in 2025 coincides with the declining US dollar (Figure 1). The US dollar weakened more than 9% in 2025, as heightened policy and growth uncertainties challenged the narrative of “US

exceptionalism”. Yet the dollar remains elevated and expensive, in our view, and above its long-term historical average. We continue to believe that, as foreign investors scale back US allocations or repatriate capital, demand for US assets - and by extension the US dollar - may weaken further.

**Figure 1: Dollar cycles are typically long-lasting, and after a decade of strength, the dollar regime appears to be shifting**

Real Broad Trade-Weighted US Dollar Index

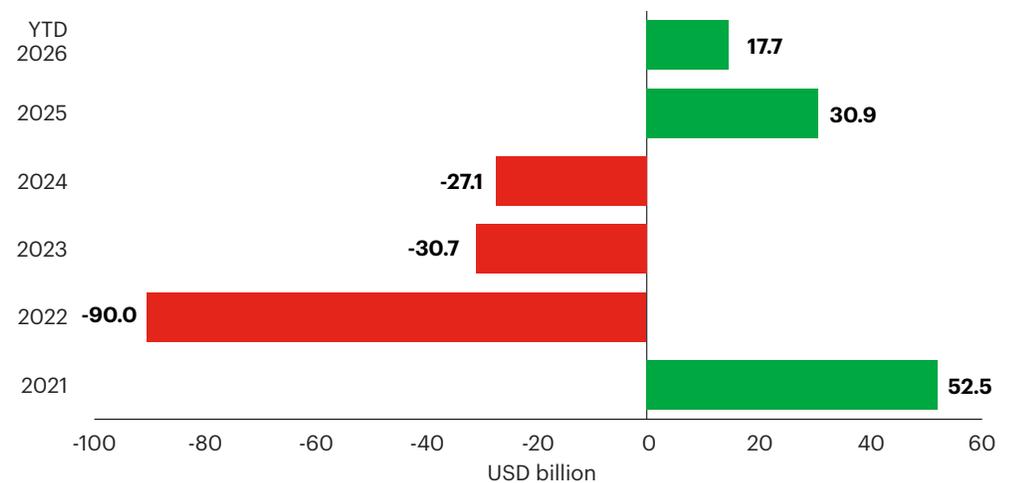


Source: Bloomberg L.P. and US Federal Reserve. Data from March 31, 1975 to Jan. 30, 2026.

EM bond fund flows were deeply negative from 2022 to 2024, reflecting higher US interest rates, dollar strength, and a strong preference for US assets. That dynamic has now reversed. 2025 marked an inflection point, with total inflows of USD30.9 billion and continued momentum this year, with year-to-date 2026 flows already positive at USD17.7 billion (Figure 2). Importantly, flows to EM over the last six months have been consistently positive, reinforcing our view that this is not just a one-off rebound — to us this looks like the early innings of a broader reallocation (Figure 3).

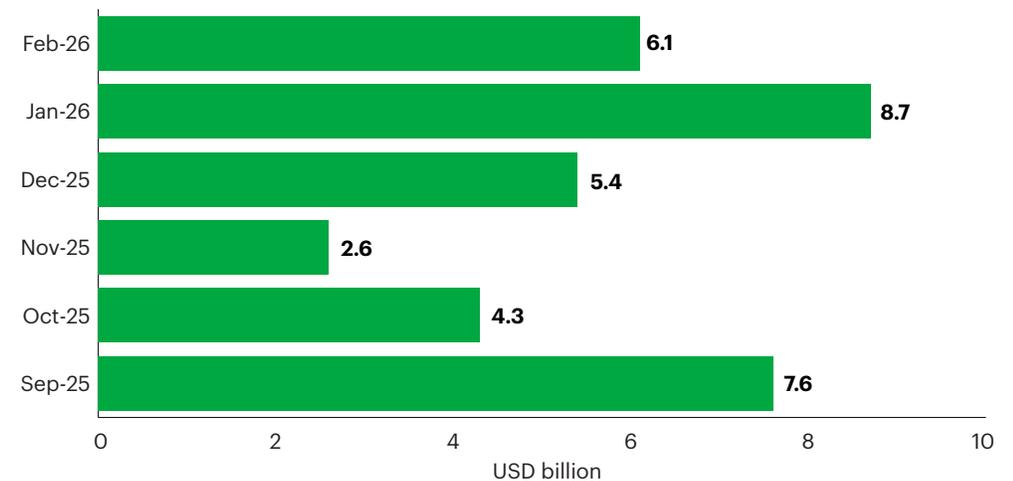
Indeed, the large share of US assets in global portfolios has created conditions for a potential rebalancing of capital away from the US. Strong relative performance, favorable growth differentials, a weakening US dollar, and cheap starting point valuations make EM assets potentially attractive alternatives that investors have under-allocated to over the last decade.

**Figure 2: EM bond fund flows (USD bn)**



Source: J.P. Morgan, EPFR Global, Bloomberg Finance L.P. Data as of Feb. 27, 2026.

**Figure 3: 6-month EM bond fund flows (USD bn)**



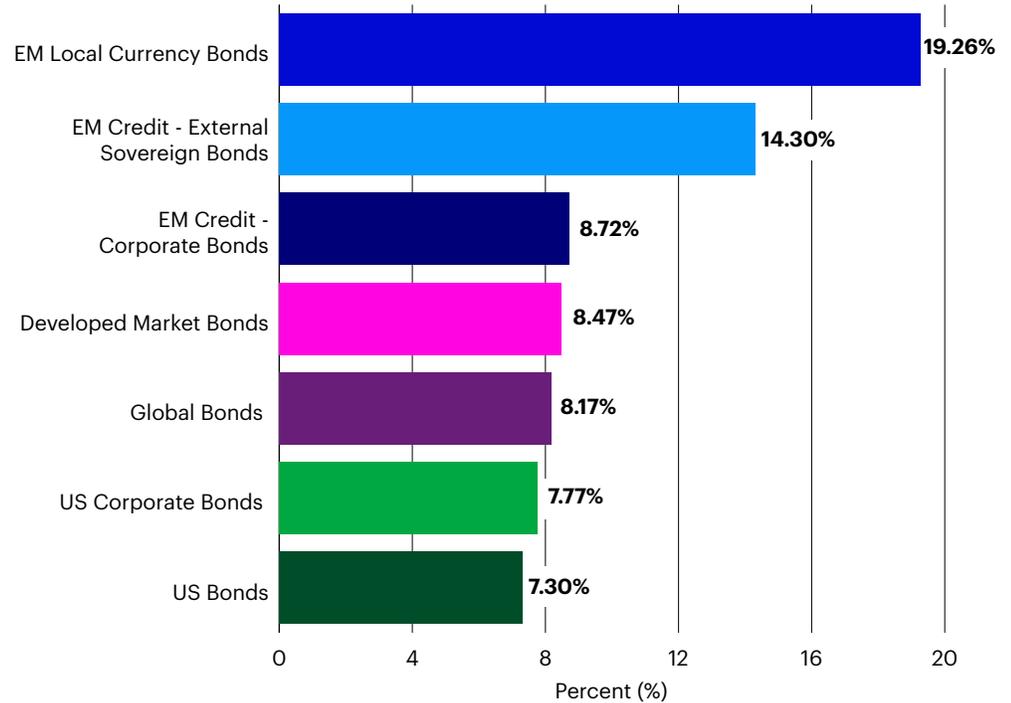
Source: J.P. Morgan, EPFR Global, Bloomberg Finance L.P. Data as of Feb 27, 2026.

The recent improvement in flows has been supported by performance. Non-US fixed income outperformed US fixed income in 2025, with EM local currency bonds leading the major fixed income categories (Figure 4). This represents a notable

change, with performance and flows now reinforcing each other, as investors respond to improved returns by increasing allocations.

#### Figure 4: Non-US fixed income outperformed US fixed income in 2025

2025 performance of major fixed income asset classes



Source: Bloomberg Finance L.P. Data as of Dec 31, 2025. Emerging Markets Local Currency Bonds represented by JPM GBI-EM Index, EM Credit – External Bonds by JPM EMBI-GD Index, EM Credit – Corporate Bonds by JPM CEMBI Broad Diversified Index, Developed Market Non-US Bonds by FTSE Non-US WGBI Index, Global Bonds by Bloomberg Global Aggregate Index, US Corporate Bonds by Bloomberg US Corporate Index, and US Bonds by Bloomberg US Aggregate Index. **Past performance is not a guarantee of future results. An investor cannot invest directly in an index.**

#### Conclusion

We believe the recent improvement in flows into EM debt reflects a shift in investor behavior rather than a short-term bounce. After years of strong preference for US assets, global portfolios are now heavily skewed toward the US, and it appears that investors are increasingly looking to rebalance. A weaker US dollar, better EM-developed market growth

differentials, and attractive EM valuations, in our view, are helping to drive renewed interest in EM assets. With performance supporting inflows, we believe the current dynamic looks more durable than in previous cycles, positioning EM debt to potentially benefit from ongoing portfolio reallocation.

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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.

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