

Invesco

Global Fixed Income Strategy

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Global macro strategy

Europe's fiscal reckoning: France and eurozone rates

Key takeaways

- **French bonds suffered a record sell-off in October,** with 10-year OAT-Bund spreads breaching 170 basis points amid concerns over fiscal slippage, though they have since retreated.
- **At current yields, stabilizing France's debt would likely require around 4% of GDP in fiscal consolidation.**
- **Spring 2027 elections and pension-reform resistance** leave no clear leader to deliver the needed fiscal tightening.
- **With inflation near 4%, the ECB is likely to remain focused on rate hikes,** complicating any response to sovereign stress. But broader fragmentation that threatens monetary transmission would likely force intervention.

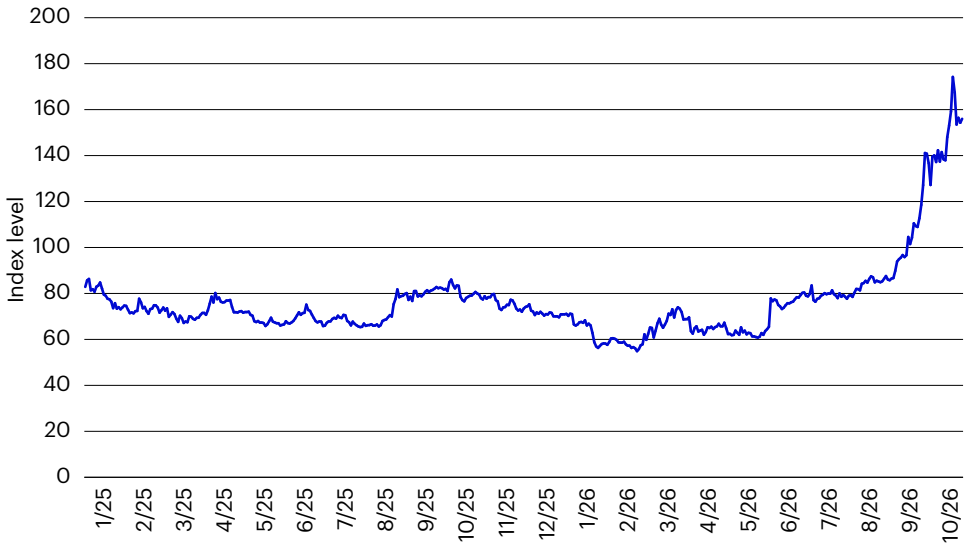
The eurozone rates market has entered a new regime. An energy-driven inflation resurgence, a fiscally constrained European Central Bank (ECB), and France's deteriorating debt dynamics have converged to produce the most significant repricing of European government bonds since the sovereign debt crisis. At the center of the storm is France — and the market may not yet be pricing the full extent of the problem.

A historic sell-off

The scale of the French bond sell-off has exceeded anything seen during COVID, the eurozone debt crisis, or the 2024 snap election — and with no single catalyst. Ten-year OAT-Bund spreads pushed through 170 basis points by October 22, before falling back (Figure 1). The two-year spread hit 87 basis points before retracing to around 58 basis points.[1] Five-year euro swap rates have risen 80-90 basis points year-to-date.[2]

Figure 1: French government bond yields have risen vs. German bunds

10-year OAT-Bund spread



Source: Bloomberg L.P. Data from Jan. 1, 2025 to Oct. 29, 2026.

We place the blame squarely on a structural fiscal problem that has suddenly become acute: In our view, this is not being driven by a shock but rather an incremental slippage: Growth has slowed, inflation has ticked up and energy needs have challenged France's budget. France's primary fiscal deficit — running at around 3% of GDP — stands out against a backdrop in which some eurozone countries now run primary surpluses after the post-crisis consolidations of the 2010s.[3]

1. Source: Bloomberg L.P. Data as of Oct. 29, 2026.
2. Source: Bloomberg L.P. Data as of Oct. 29, 2026.
3. Source: International Monetary Fund. Data as of Sept. 30, 2026.

The debt arithmetic

We separate eurozone sovereigns into three categories: the prudent (Germany, Netherlands, Austria — low debt, fiscal room), the reformed (Spain, Portugal, Italy — post-crisis primary surpluses), and the concerning (France, UK, Belgium — high deficits, rising debt, uncertain outlook). France occupies the most precarious position in the third group.

The fiscal numbers are sobering. France's effective borrowing rate remains relatively low thanks to a legacy debt stock issued at very low rates: Debt was accumulated during the global financial crisis, followed by the eurozone debt crisis and then COVID when deficits were financed at very low yields. Now yields are higher, and the impact of rising debt service has created the current predicament.

As debt rolls over at today's higher yields, estimates suggest that France's net interest burden will rise sharply, potentially rising from 2.6% of GDP in 2026 toward 5% of GDP by 2035. Elsewhere, net debt could rise to 126% of GDP, and stabilizing debt at 100% could require fiscal consolidation of approximately 4% of GDP — a swing from a nearly 3% primary deficit to a 1% primary surplus.[4] France's debt trajectory has entered a new regime. The recent rise in yields makes an already difficult fiscal position more challenging.

The political vacuum

France's problem is as much political as fiscal, with an absence of any domestic constituency for austerity. There appears to be a lack of national appetite to reduce spending. Discussion of the pension age, for example, causes an extreme reaction from the French public. Indeed, OECD analysis identifies pensions as a key area where France outspends its peers, noting that France spends more than the euro area in all major categories, especially pensions, health and economic affairs.[5]

The presidential elections expected in spring 2027 compound the uncertainty. Far right candidate Marine Le Pen leads the polls and has proposed deficit reduction and a "golden rule" — a constitutional mechanism to force France into a declining debt path. But her numbers lean on €9 billion of European Union budget cuts and €6 billion of "fraud savings" rather than genuine spending reform.[6] So, not only are French fundamentals a concern, but the spring presidential elections and summer parliamentary elections make it unclear if someone will be there to make the tough decisions, especially if markets sour on France's outlook.

The ECB's dilemma

With eurozone inflation now forecast to peak above 4% — revised up from the mid-3%s driven by rising natural gas prices — the ECB faces an acute tension between its inflation mandate and the fragility of its second-largest sovereign.[7] We expect the deposit rate to rise to 2.75% in December — above the upper end of neutral territory, but see an opportunity if rates overshoot: If the ECB hikes rates to the 2.75–3% range, it may need to cut them next year if the policy setting proves too high for the eurozone economy.

There are also limits to the ECB's crisis toolkit. The Transmission Protection Instrument and Outright Monetary Transactions tools require countries to be on a "sustainable fiscal path" — a condition that France does not meet. The situation is complicated by the uncertain political landscape — if anti-establishment parties gain power, it is not clear they would be willing to go along with a fiscal consolidation program.

Yet we are careful to distinguish the current episode from the existential crises of the past. France remains a AA credit and is still one of the perceived safest bond markets in the world; France is not Greece in this instance. The massive pooling of European debt through the European Financial Stability Facility, European Stability Mechanism, and ECB balance sheet operations also means the fates of member states are inextricably linked.

4. Source: Invesco. Data as of Oct. 29, 2026.
5. Source: OECD Economic Surveys: France 2026, June 2026.
6. Source: Politico. Oct. 6, 2026. "France's Le Pen unveils economic platform brimming with eye-watering cuts — but few new ideas"
7. Source: Invesco estimates. Data as of Sept. 30, 2026.

The key question

In our view, the outlook hinges on a key distinction: between a France-specific repricing, which the ECB may tolerate, and a broader fragmentation, which would be more likely to trigger a policy response. Moody's rating review of France on October 23 kept France's rating unchanged and offered some near-term respite. Also, we are not at the 250 or 300 basis point OAT-Bund spread level that that we would consider dire.[8] But the market has repriced — and the test of the eurozone's institutional architecture may only be beginning.

8. Source: Bloomberg L.P. Data as of Oct. 29, 2026.

Bixby Stewart
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Global credit strategy

Paid to be picky: dispersion, dislocation and the search for value in global fixed income

Key takeaways

- **Dispersion is back, and it's creating a bond picker's market.** Higher interest rates are widening performance gaps across regions, ratings and sectors, rewarding selective credit underwriting versus simply owning yield.
- **Quality is proving its value.** Strong balance sheets, liquidity and capital flexibility are helping US investment grade companies weather higher interest rates better than smaller, more leveraged credits.
- **Opportunities are also emerging further down the spectrum.** Decompression in BBs offers attractive compensation for selectively taking additional credit risk.
- **Dislocations are opening opportunities across sectors and regions.** Tech supply and European sovereign concerns have cheapened valuations, creating potentially compelling opportunities for globally oriented, research-driven investors.

Dispersion is back with a vengeance across global capital markets. After a year of low volatility and tightly correlated fixed income, one credit market has quickly become many. US credit is outperforming Europe, investment grade is beating high yield, BBs are beating CCCs and technology is lagging non-tech. Equities, meanwhile, barely seem to have noticed, still hovering near all-time highs.

The catalyst? Interest rates. In recent weeks, the 10-year US Treasury yield briefly moved above 5%, the 30-year yield reached its highest level since 2004, and the MOVE Index, a measure of interest rate volatility, has increased around 30% since the end of August.[9] Higher rates are hitting every market and every balance sheet — corporate and sovereign — with disparate force.

A bit daunting? Definitely. Exciting? Absolutely. For the first time in a long while, investors are being paid to be picky, and we relish this type of global bond picker's market.

US investment grade – the steadiest ship in rough seas

Higher rates have investors re-sharpening their pencils during the credit underwriting process. Simplistically, higher rates drive higher interest expense, higher interest expense compresses free cash flow, lower free cash flow constrains capital flexibility, and access to capital — or lack thereof — becomes increasingly important.

US investment grade companies generally enter this environment on stable footing with large (and healthy) balance sheets, strong liquidity, long maturity runways and attractive capital flexibility. That flexibility is showing up in relative asset class stability versus smaller scale, more levered high yield credits. Until recently, US investment grade spreads had been generally range-bound for much of the year, and this was despite geopolitical uncertainty, record bond issuance and AI bubble fears. Yields near 6% on the Bloomberg US Credit Total Return Index, improving corporate fundamentals and large balance sheets had anchored the US investment grade market. While investment grade spreads have recently widened beyond this year's tight range, the asset class still looks like the steadiest ship in increasingly rough seas.

BBs – (finally) getting paid to step down in quality

Strong fundamentals had pushed BBs to historically tight levels versus BBBs. Recently, however, that differential ballooned to near one-year wides, one of the starkest examples of a shifting market dynamic.[10] While high yield has recently underperformed investment grade, CCCs have continued to lag the rest of high yield. The CCC credit index is now yielding nearly 16%, with credit spreads near the 10-year wides at more

9. Source: Bloomberg L.P. Data as of Nov. 2, 2026 (Aug. 31, 2026 MOVE index: 75, Nov. 2, 2026 MOVE index: 100.)
10. Source: Bloomberg L.P., Invesco Fixed Income US Investment Grade Credit Research; Bloomberg High Yield Index BB-rated sub-index Option-Adjusted Spread of 203 less Bloomberg US Credit Total Return BBB-rated sub-index Option-Adjusted Spread of 114 at Nov. 2, 2026 (89 basis point spread differential, approximating the last twelve month wides).

than 1,000 basis points, a sharp contrast to BB's where credit spreads still remain inside the 10-year medians.[11]

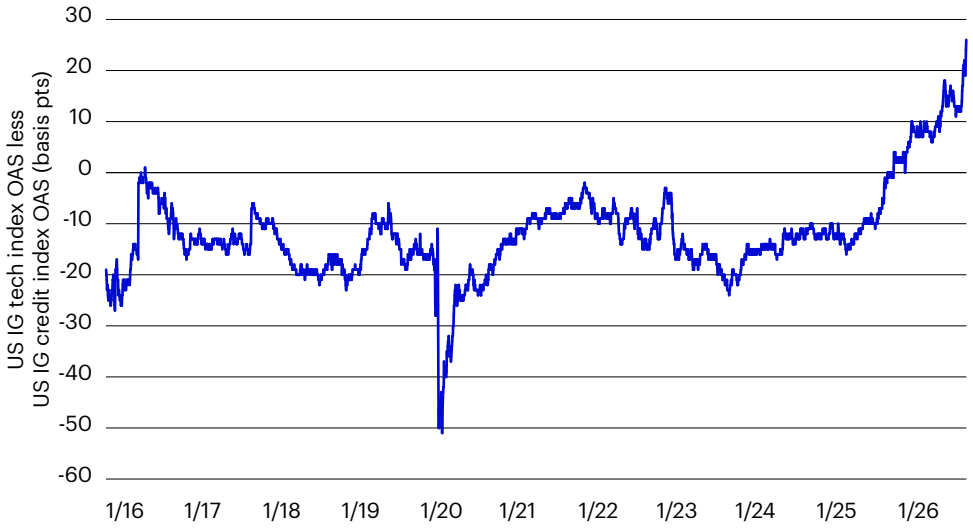
Given a sharply higher rate backdrop, this is intuitive. More levered capital structures have less room to absorb rising financing costs and tighter flexibility when free cash flow is pressured by higher interest expense. Does this point to a broad default cycle? We don't think so, particularly with firm economic growth and corporate earnings still impressing. In fact, we think this risk re-pricing creates opportunities in higher quality high yield. Having decompressed from BBBs, high-quality BBs now pay investors more for a modest step down in quality. This is the kind of trade picky investors have long wanted, and can now find.

Tech – the cheapest versus investment grade (ever)

Investment grade tech yields are now at their widest levels versus broader US investment grade in history, and while valuation alone isn't a catalyst, we favor being tactical and selective in the sector.[12] Tech recently traded around 25 basis points wide to the broader US investment grade market, versus a 20-year median of roughly 15 basis points inside the index.[12] This relative weakness of tech credit reflects record hyperscaler supply (with no end in sight) and real questions about AI payback on more than USD3 trillion in expected capital spending through 2029.[13]

Wider spreads have created value in tech, in our view, a space where we were already positive on corporate fundamentals. We like high-quality tech, but not all hyperscaler credit opportunities are created equal. With 2027 supply likely to top 2026's record, we favor being selective, with a focus on strong structures with creditor-supportive features among the highest quality, most cash generative hyperscalers in the market.

Figure 1: US investment grade tech vs. broad investment grade index – spread differential has jumped



Source: Option-Adjusted Spread of the Technology BCLASS 3 sector within the Bloomberg US Credit Total Return Index less the Option-Adjusted Spread of the Bloomberg US Credit Total Return Index. Data from Jan. 4, 2016 to Nov. 2, 2026.

Europe – sovereign stress bleeding into corporates

European credit markets have underperformed the US, as sovereign and fiscal stress leaks into corporate credit. European investment grade credit is now trading near its widest versus US investment grade in the prior 12 months. As a result of this underperformance, we have become more constructive on European investment grade, and see value in select European financials and cross-currency relative value where euro-denominated bonds are trading cheap to US dollar-denominated bonds from the same issuer. Wider valuation gaps between regions mean potentially more tactical opportunities for a global fixed income platform.

11. Source: Bloomberg L.P., Invesco Fixed Income US investment Grade Credit Research. Data as of Nov. 2, 2026.
12. Source: Bloomberg L.P. Spread differential measured as Option-Adjusted Spread of the Bloomberg US Credit Total Return Index less the Option-Adjusted Spread of the Technology BCLASS 3 sector within the Bloomberg US Credit Total Return Index. Data as of Nov. 2, 2026.
13. Source: Bloomberg aggregate consensus capital expenditure estimates from 2027-2029 as of Nov. 3, 2026; "hyperscaler" cohort refers to META, GOOGL, ORCL, MSFT and AMZN.

A bond picker's market

Throughout 2026, elevated yields have paid investors to own credit, but now, the market is paying investors to get picky. The interest rate sell-off has blown apart a global credit market that previously traded as one, and has created a market that Invesco's global fixed income platform is built for. Our research teams can evaluate a European financial, a BB energy company and an investment grade hyperscaler bond side by side, so we can deploy capital into the best ideas globally. Our investment process is structured to help investors identify where wider spreads reflect true fundamental deterioration versus technical dislocations, and we are starting to see more of both. As interest rates remain near local highs and dispersion continues building, identifying the best risk-adjusted opportunities across geographies, sectors and rating classes is becoming more important; and more challenging. Simply owning yield worked for most of 2026, but now it's time to get picky.

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Interest rate outlook

US: Overweight

We are more constructive on US rates this month following the significant repricing over the past two months. The sell-off has been driven primarily by resilient US growth rather than inflation, as policy rate expectations have broken out of their prior range while the market recalibrates to an economy that has proven impervious to current rate levels. The Federal Reserve (Fed) ultimately chose to skip in October despite an upside inflation surprise, removing a near-term tail risk and consistent with the Board's signaling that they prefer to wait, though the December meeting remains live and the absence of forward guidance under Chair Warsh continues to drive structurally higher front-end volatility. Long real yields near 3.40% on 30-year TIPS and roughly 3% on 10-year TIPS are historically very attractive, in our view, and two-year risk-free yields near 5% offer a compelling carry proposition given elevated uncertainty. Short positioning at the long end has become extreme, and yields appear to be finding a level, as the backup begins to weigh on other risk assets, making it easier to foresee a rally on any softening in growth data. On the curve, we expect the belly to outperform. The key catalyst to watch remains the growth data, consumption in particular, with fiscal sustainability and geopolitical risk as secondary factors.

Europe: Neutral

The European Central Bank (ECB) held rates steady in October. Although the ECB acknowledged the recent turbulence in intra-government spreads, it appeared confident in its existing framework for managing fragmentation risks and did not appear close to action. It indicated willingness to raise rates further if the inflation outlook deteriorates, and December is a live meeting in our view. The market has reappraised the future path of interest rates given recent market developments; with energy prices continuing to rise, we think the scope to price out more hikes is limited, for now. Higher energy prices will likely necessitate fiscal support measures from eurozone governments and calls for greater defense and energy transition-related spending have intensified — all of which would likely increase long-end bond risk premia versus shorter dated bonds, and we foresee a steeper curve.

China: Neutral

We have downgraded our stance on Chinese onshore government bonds to neutral versus last month and expect bond yields to remain relatively stable in the months ahead. China's central bank has turned to the overnight reverse repurchase rate as its key benchmark rate, which effectively lowers the benchmark rate by 15 basis points to price various facilities. The central bank has recently set up the Bond Market Non-Bank Financial Institution Swap Facility to support liquidity needs of asset managers and conducted a third round of the Securities, Funds and Insurance Companies Swap Facility operation to support capital market stability.[14] On the other hand, the potentially stronger need to support large infrastructure projects in 2027 and less expected outperformance compared to major developed market government bonds in the near term have led to our neutral stance.

Japan: Neutral

10-year Japanese government bond (JGB) yields have declined over the past month, surprisingly tracking the move lower in US Treasury yields despite their normally lower beta. The market has been supported by solid demand, notably a record-high bid-to-cover ratio in the late October 20-year auction. Local and international appetite for JGBs appears to be increasing as volatility moderates and investors seek alternatives to markets with more imminent fiscal risks, such as France. However, the scope for front-end yields to decline much further is limited, in our view. Recent inflation data show an acceleration in underlying pressures, while the Bank of Japan (BoJ) has acknowledged that the 2% inflation target has now been achieved. Quarterly rate hikes to a 2% terminal rate now look like a very solid base case unless the global growth environment deteriorates substantially. The long end should be supported by further repatriation demand, resulting in additional curve flattening, particularly beyond the 10-year sector.

14. The Bond Market NBFI Swap Facility (BNSF) is a liquidity tool launched by the People's Bank of China (PBOC) to support non-bank financial institutions (NBFIs) during periods of bond-market stress and heavy redemption pressures.

UK: Overweight

A combination of risk premia heading into the October Budget, resilient domestic data and elevated energy prices has kept gilt yields close to recent highs. Gilts have notably underperformed both US Treasuries and Bunds, which have been more sensitive to risk aversion driven by AI earnings disappointment and France's fiscal situation. Looking ahead, we think gilts offer attractive absolute and relative value compared with US Treasuries and Bunds, particularly at shorter maturities.

Although the Bank of England (BoE) is very likely to hike by 25 basis points at the November meeting, even hawks such as Chief Economist Huw Pill have signaled that rates are unlikely to exceed current market pricing of over 100 basis points of hikes unless there is more evidence that upside inflation risks are materializing. The additional 40 basis points of BoE hikes priced relative to the Fed and ECB also does not appear warranted, in our view, given recent relative inflation trends.[15]

The Budget did not create volatility, but questions around the UK fiscal picture remain. Given the recent flattening of the yield curve, we favor shorter maturities over longer-maturity gilts.

Australia: Overweight

Australian bond yields have fallen approximately 25 basis points from their early October peak, largely tracking the decline in US and German yields.[16] The rally has come even though the Reserve Bank of Australia (RBA) remains hawkish in the face of sticky inflation data and higher energy prices, signaling that the market is increasingly focused on downside growth risks from AI, energy and higher domestic interest rates. Business and consumer confidence, together with recent employment data, point toward a slowdown. The November hike to 4.85% will likely be the last of this cycle. Long-term yields above 5% look good value in the context of slowing growth and inflation over the next 12 months, in our view. On a relative basis, 10-year Australian government bonds have lagged US Treasuries in the rally. However, we believe Australian long-term forwards arguably offer more attractive value: they should perform in a global growth downturn without the fiscal or institutional credibility issues that present more upside risk for US Treasury yields.

15. Source: Bloomberg L.P. Data as of Oct. 30, 2026.
16. Source: Bloomberg L.P. Data as of Nov. 2, 2026.

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Currency outlook

USD: Neutral

With the US leading global growth, and interest rates poised to increase further, the US dollar has fundamental support. For now, however, we have moved to neutral, given the political and geopolitical uncertainty ahead in the short term.

EUR: Underweight

We expect European currencies to be laggards, as growth in the region continues to be lacklustre and energy prices present downside growth risks.

RMB: Overweight

We are overweight the renminbi over the medium term, though in the near term, the central bank's recent actions may lead to less renminbi strength and a less rapid pace of appreciation versus other major currencies. The central bank hiked financial institutions' foreign exchange required reserve ratio by two percentage points from 4% to 6% on November 3, which suggests an intention to slow renminbi appreciation as it raised demand for foreign currency in the onshore market, by our interpretation. The renminbi has appreciated notably against the US dollar year-to-date. We think after a period of consolidation, we should see further appreciation in the year ahead, on the continuous strong trade surplus expected to be generated on a monthly basis.

JPY: Overweight

Increasing concerns about downside risks to global growth, combined with signs that repatriation flows are starting, are supportive for the yen. Energy prices remain a headwind for Japan's terms of trade, but the same applies to Europe and the rest of Asia. Consequently, long yen positions are better expressed versus the euro, in our view, which faces the additional headwind of French fiscal stress and has lower interest rates than the US, reducing the negative carry of yen longs.

GBP: Underweight

Sterling has outperformed the US dollar and euro over the last month, helped by widening interest rate differentials driven by market anticipation of BoE hikes starting in November, resilient UK growth data and some flight to quality inflows from the eurozone. The Sterling Trade Weighted index is now close to record highs, potentially limiting further gains, particularly as the BoE is unlikely to validate market expectations of aggressive rate hikes.[17] In addition, the headwind of higher energy prices remains, likely capping sterling's potential versus currencies with better terms of trade dynamics.

AUD: Overweight

The hawkish RBA and rising commodity prices should remain supportive for the Australian dollar, particularly against European and Asian energy-importer currencies. However, the Australian dollar could become more vulnerable if growth fears start to dominate market sentiment, although this is not the case at present.

17. Source: Bloomberg L.P Data as of Oct. 30, 2026.

Panelist



Mark Paris
Head of Municipals

The bottom line

Why we think municipal bonds look compelling today

September's sharp municipal bond sell-off, followed by October's rebound, raised a key question for investors: what drove the volatility and are municipal bonds still compelling today? Mark Paris, Head of Municipals, explains why rising rates, not credit deterioration, were the cause, and why higher tax-equivalent yields and solid credit fundamentals still make municipals look attractive.

Q: September was an unusually difficult month for municipal bonds. What happened, and has the sell-off changed your view of the asset class?

Mark: September was certainly a difficult month. The Bloomberg Municipal Bond Index declined 4.36%, as a sharp rise in yields put significant pressure on bond prices.[18] But I think it is important to understand what drove that weakness. In our view, it was primarily an interest rate story, not a municipal credit story. Rising Treasury yields were a major driver, and municipals followed that broader fixed income move.

That distinction matters because the repricing left investors with meaningfully higher yields without, in our view, a corresponding deterioration in underlying municipal fundamentals. So far this year, credit rating activity has remained modestly favorable, with 838 upgrades versus 815 downgrades through September 24. And this trend has been favorable for some time now, from the beginning of 2022 through June of this year, Moody's and S&P upgraded 6,637 issuers while only downgrading 3,431, meaning 1.93 upgrades for every downgrade.[19] So, while September was painful from a performance standpoint, we believe it ultimately improved the investment opportunity.

Q: Past municipal bond sell-offs were associated with concerns about credit deterioration and credit spread widening. How was this time different?

Mark: September's sell-off was against a very different backdrop than true, credit-driven selloffs in the past. We've seen several periods since the global financial crisis when large movements in interest rates created pressure on municipal bonds, including the 2013 taper tantrum, the 2016 election period, the pandemic shock in 2020 and the Fed policy transition in 2022. In those episodes, there were concerns about credit weakness and credit spreads widened, even though, in retrospect, credit defaults did not increase materially.

We view municipal credit fundamentals as broadly resilient today. That doesn't mean there aren't individual issuers or sectors that require careful analysis, but we don't see the September weakness as evidence of broad-based deterioration in credit quality.

We think this distinction is important because today's interest-rate driven backup in municipal yields means investors can potentially take advantage of higher yields without having to move down in credit quality to generate attractive income.

Q: Did that repricing create a more attractive entry point for municipal investors?

Mark: We believe it did. By late September, the combination of rising Treasury yields, heavy tax-exempt issuance, relatively limited reinvestment demand and tax-related trading had pushed municipal yields to unusually high levels. For example, the taxable-equivalent yield-to-worst on the Bloomberg Municipal Bond Index for top tax bracket joint filers reached 9.89% on September 29, which was higher than any date going back to October 16, 2008, during the global financial crisis.

The relative-value picture also improved. At the end of September, the 10-year AAA municipal yield was 4.11% versus 5.30% for a comparable Treasury, producing a 77.6% municipal-to-Treasury yield ratio. At 30 years, the AAA municipal yielded 5.19% versus 5.62% for Treasuries, a 92.3% ratio. Using the 40.8% top federal rate, which includes the 3.8% Net Investment Income Tax, the corresponding AAA tax-equivalent yields were 6.95% at 10 years and 8.77% at 30 years at the end of September.[20]

18. Source: Bloomberg L.P. Data from Sept. 1, 2026 to Sept. 30, 2026.
19. Source: S&P Global Ratings Research and Moody's Investors Services. Data as of June 30, 2026, latest data available.
20. Source: Bloomberg L.P. Data as of Sept. 30, 2026.

Q: After the difficult environment in September, municipal bonds rallied sharply in October. What drove such a strong rebound?

Mark: October was almost the mirror image of September. The Bloomberg Municipal Bond Index returned 3.85% for the month, nearly reversing September's 4.36% decline. It was the index's strongest month since November 2023 and its best October on record. Investment-grade municipals also outperformed high-yield municipals (+3.54%), US Treasuries (+2.36%), taxable municipals (+2.78%) and US corporate bonds (+2.16%).[21]

The biggest catalyst, in my view, was the rally in the broader rates market. Treasury yields fell significantly in October, and municipal yields followed. But technical conditions improved as well. New-issue supply became more manageable, ETF inflows accelerated and investors increasingly responded to the unusually attractive tax-equivalent yields created by the September sell-off. That combination helped bring buyers back into the market and drove a particularly strong recovery in intermediate and longer-duration municipals.

October also reinforced an important point we made following the September sell-off: the weakness was primarily driven by interest rates rather than a deterioration in municipal credit. When the rate environment improved, municipals responded very quickly.

Q: Given how much municipal bonds rallied in October, have we missed the opportunity, or do you still see attractive value in the market?

Mark: We still see attractive opportunities, although they have become more selective. October recovered much of September's decline, but that doesn't mean all of the value created by the sell-off has disappeared. Longer maturities, in particular, haven't rallied nearly as much as the front end. That is important because investors are still being compensated with relatively high absolute yields and potentially attractive tax-equivalent income. At the same time, the municipal yield curve remains unusually steep. Tax-exempt yields still appear attractive historically on a tax-equivalent basis and continue to provide an appealing entry point, in our view.

The broad September dislocation created unusually attractive valuations across much of the municipal market. After October's recovery, we think the better opportunities are increasingly found further out the curve and in areas where valuations have not fully normalized. For long-term investors, we continue to believe the combination of tax-exempt income, solid credit fundamentals and attractive yields makes municipals compelling, even after the October rally.

21. Source: Bloomberg L.P. Bloomberg Municipal Bond High Yield Index, Bloomberg US Treasury Index, Bloomberg Taxable Municipal Bond Index, Bloomberg US Corporate Bond Index. Data from Oct. 1, 2026 to Oct. 31, 2026.

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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.

Important information

All information is sourced from Invesco, unless otherwise stated.

All data as of October 31, 2026, unless otherwise stated. All data is USD, unless otherwise stated.

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