



Global Fixed Income Strategy

MARCH 2026

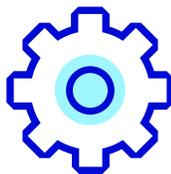
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AI disruption fears have driven an indiscriminate selloff in software – but investment grade and high yield software exposures are limited.



10 Rates and currency outlook

Major rates and currencies 3-month outlook

In rates, we are overweight Australia. We are neutral on Europe, China, Japan and the UK, and underweight US rates. In currency, we are overweight the euro, Chinese renminbi, yen and Australian dollar. We are underweight the US dollar and British pound.



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Notes from the ground: Opportunities in frontier debt

We highlight interesting opportunities in local frontier debt, following our EM strategist's recent trip to Africa.

Jason Trujillo
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Credit and Strategy

Daniel Phillips
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Global macro strategy

Dollar weakness and opportunities in EM

Executive summary

- **A weaker or stable US dollar and improving EM macro fundamentals create a supportive backdrop** for EM debt performance. Many countries benefit from credible monetary frameworks, moderating inflation, and stronger external balances.
- **Local currency EM debt offers the most attractive medium-term opportunity**, in our view, combining high real yields, potential currency appreciation, and policy-driven tailwinds—though with higher currency-related volatility. Hard currency EM debt remains more income-oriented, in our view, with limited spread-compression upside.
- **Wide dispersion across countries reinforces the value of active management** to navigate diverse economic structures, fiscal positions, policy credibility, and idiosyncratic risks across more than 70 sovereign issuers.

Emerging market (EM) debt has re-entered investor discussions on the back of strong performance. The question now is whether that performance can be sustained. We believe continued strong performance rests on two conditions: a plausible case for a stable to weaker US dollar that supports inflows into the asset class and a mix of steady growth and inflation across EM that supports policy flexibility.

We believe these two conditions are likely to be met in the medium term. With these conditions in place, we believe there is strong potential for EM debt—particularly local markets—to provide investors with robust, diversified sources of return.

US dollar weakness plays a key role

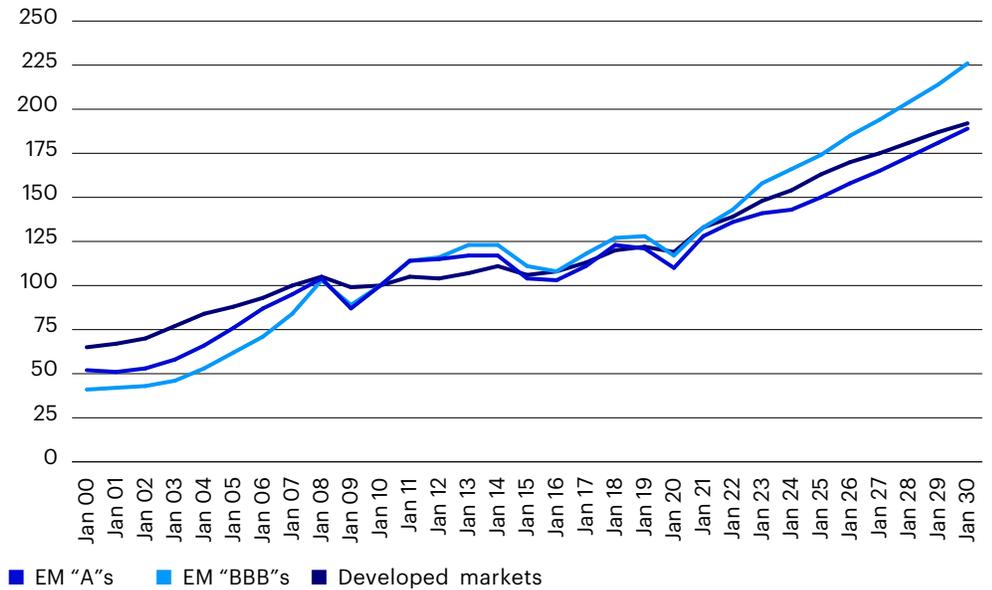
The US dollar is often the most important macro variable in EM debt returns because it influences both financial conditions and investor behavior. A weaker dollar tends to support EM currencies and the balance sheets of sovereigns with external liabilities. It can also encourage investors to diversify away from US assets and toward non-US opportunities, including EM, especially when valuations and yields appear more compelling. History shows that dollar cycles can persist for years, driven by differentials in growth and interest rates, and shifts in global risk appetite. If the strong dollar headwind that challenged EM assets from 2022-24 continues to dissipate, we would expect a more favorable backdrop for EM debt—especially for local currency bonds.

EM macro strength

Improved macro fundamentals are the second part of the EM debt argument. Many emerging economies now boast more credible monetary frameworks than in prior decades, and some entered the recent global inflation shock having already tightened policy early and decisively. As inflation pressures have moderated following the 2022 spike, policymakers have been able to stimulate a growth boom rather than purely defending currency stability (Figure 1).

Figure 1: Policy has supported growth boom across EM

EM ex-China and G2, USD GDP per capita, index, 2010 = 100



Source: IMF WEO, Macrobond, Invesco calculations. Data from Jan. 1, 2000 to Dec. 31, 2025, IMF forecasts thereafter. There can be no assurance that forecasts will materialize.

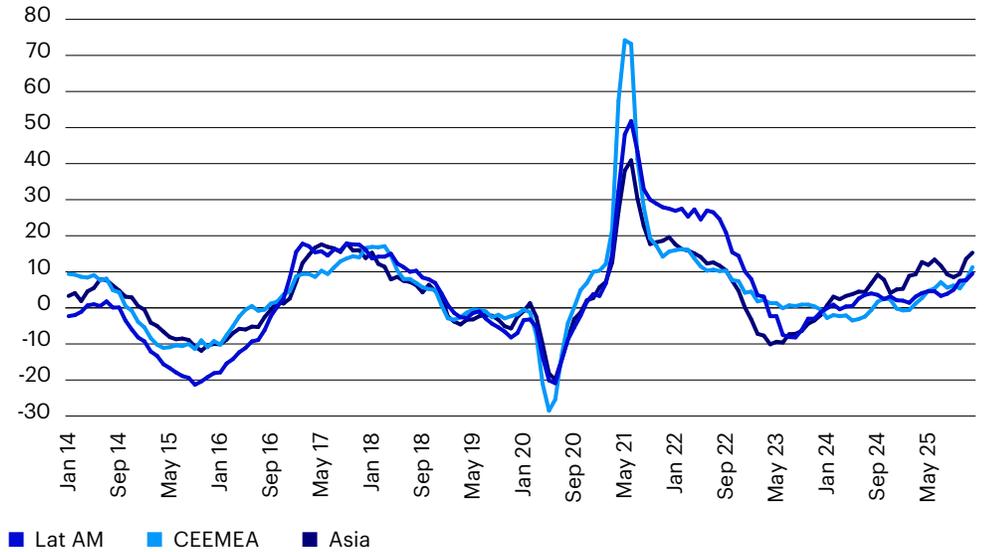
For bond investors, moderating inflation and high real interest rates create potential for capital gains if policy rates decline, while offering attractive carry in the meantime. In addition, several emerging markets have improved fiscal discipline and external account management compared with past cycles, and many maintain adequate reserves and more manageable debt profiles than the stereotype of EM fragility would suggest. These improvements are not universal, but the aggregate direction is positive.

Structural macro factors also reinforce the medium-term case. Demographics remain a tailwind in parts of the emerging world, for example, where burgeoning young workforces support consumption, urbanization, and productivity gains over time. This doesn't guarantee strong growth—policy, governance, and capital formation still matter—but favorable demographics can make the growth outlook more resilient compared to aging developed economies facing higher dependency ratios.

Additionally, more emerging economies are becoming more diverse, being driven by robust service sectors and domestic demand, compared to their dependency on raw material exports in the past. But exports still matter and are a positive growth driver – especially technology exports. Even amid significant global trade tensions, EM exports have remained strong (Figure 2).

Figure 2: Robust exports boost EM growth

EM regional goods trade, USD value, yoy % change



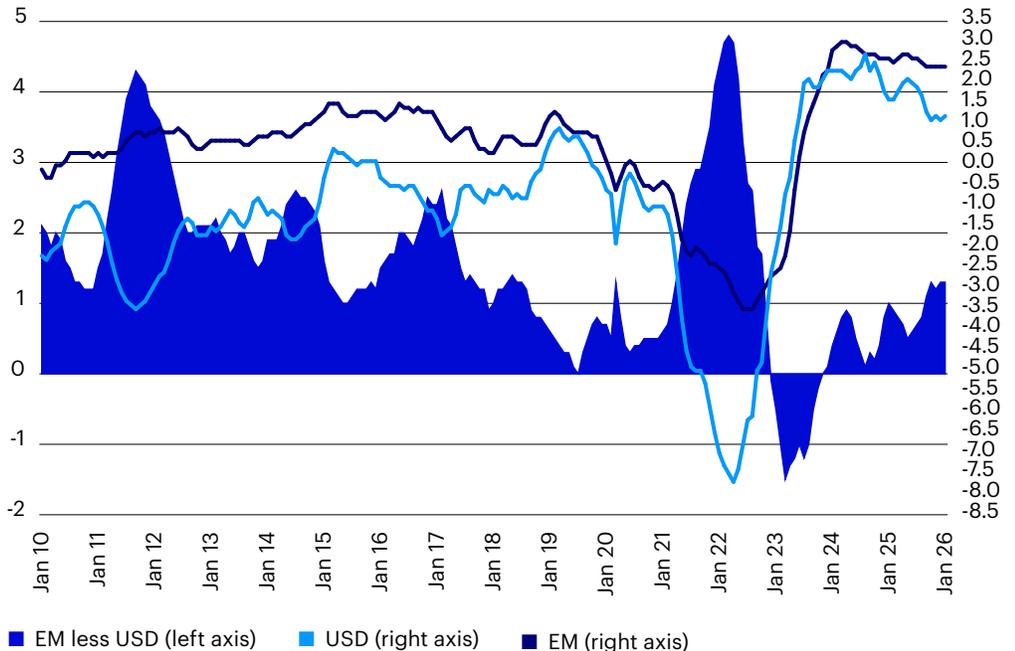
Source: Macrobond, Invesco calculations. Jan. 1, 2014 to Dec. 31, 2025.

Local currency vs hard currency debt

Within the EM debt space, it's important to distinguish between the local currency and hard currency asset classes because the return drivers and risks are different. Local currency bonds offer two potential sources of return: local yields and currency appreciation. In a scenario where the dollar is weak and EM currencies appreciate or remain stable, local bonds have the potential to deliver substantial total returns (Figures 3 and 4). Local markets can also benefit from domestic disinflation and policy easing, especially when real rates start from elevated levels. The trade-off, however, is the currency volatility that local currency exposure can introduce: currencies can sell off sharply during global risk shocks, even when local interest rates behave well.

Figure 3: EM real policy rates are relatively attractive

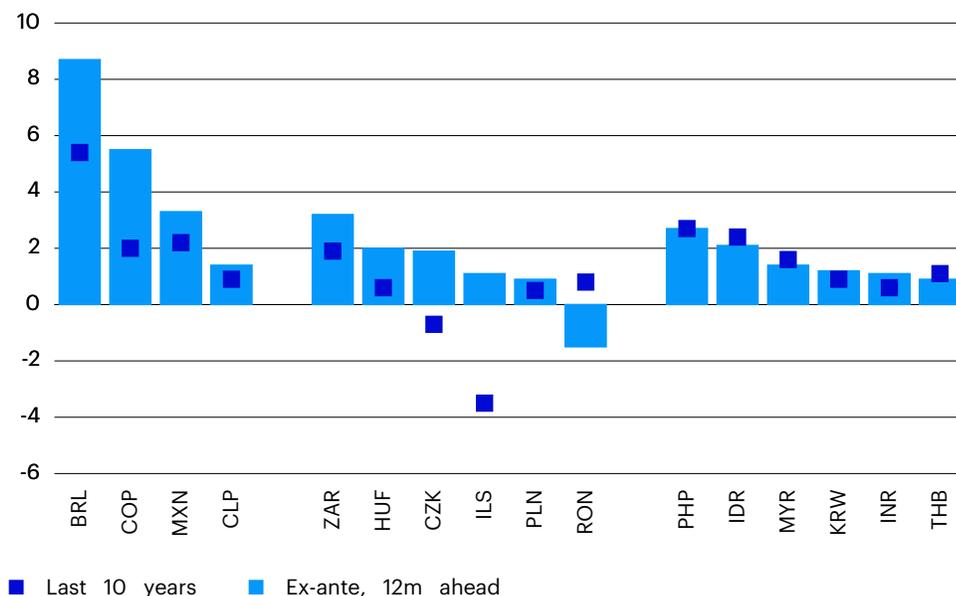
Real monetary policy rate (%)



Source: Macrobond, Invesco calculations. Jan. 1, 2010 to Jan. 31, 2026.

Figure 4: EM real policy rate less US Fed policy rate

EM real policy rate less US Fed policy rate (pct pts)



Source: Macrobond, Invesco calculations. Data as of Feb. 23, 2026.

Hard currency EM debt—typically issued in US dollars—plays a different role in investment portfolios. Even though denominated in dollars, a weaker dollar helps hard currency EM debt by improving a country’s fundamentals - a weaker dollar makes EM exports more competitive and reduces the value of a country’s dollar denominated debt.

Hard currency EM debt can also provide attractive yield and be easier to integrate into global fixed income portfolios since the currency is the same as the investor’s base currency. In periods of stable risk sentiment, hard currency bonds can offer steady carry and may benefit if US interest rates decline. However, the upside is often more limited when spreads are already tight; there is less room for spread compression to drive returns, and the asymmetry can worsen if global conditions deteriorate and spreads widen.

In that sense, hard currency EM debt may be best viewed as an income-oriented exposure with sensitivity to global credit conditions, while local currency may offer more upside optionality in a weaker-dollar environment, but comes with higher potential volatility.

Risks

The most obvious risk for EM debt is a reversal in the US dollar’s weakness and a return of dollar strength. If US growth re-accelerates, inflation proves sticky, or the Federal Reserve remains tighter for longer than expected, the dollar could strengthen and financial conditions could tighten for EM. In that regime, the higher yield offered by local currency debt could be offset by the currency headwind, and hard currency spreads could widen if risk appetite deteriorates. A second key risk is geopolitical and commodity volatility. For some emerging economies, commodity price swings are a meaningful driver of fiscal and external balances, and geopolitical shocks can trigger sudden risk repricing. A third risk is idiosyncratic policy credibility. EM is heterogeneous: some countries have strong institutions and consistent policy; others are more vulnerable to political uncertainty, fiscal slippage, or external financing needs. Country selection, diversification, and portfolio risk controls are therefore critical, especially when investors move beyond higher-quality sovereigns.

EM debt return profile

Last, we think it is important to consider the dispersion of returns within EM debt. Many investors think of EM as a single or homogenous asset class. However, the opposite is true. EM debt includes more than 70 countries across five distinct regions with highly varied economic, political and legal structures. Dubai is vastly different from Brazil, Nigeria from Costa Rica and China from Poland. This wide variation contributes to the asset class's powerful diversification benefits, but also supports the case for active management versus a passive approach.

To illustrate the recent significant dispersion in returns in the hard currency space over the past 12 months, Venezuelan government bonds have returned 138% while Senegalese debt was down over 13%, and China and Indonesia delivered returns in the 6-7% range.¹ Local currency EM debt exhibits a similar wide dispersion: The asset class returned 19% over the past 12 months and over that time, returns have ranged from low single digits for India (+2.4%) to very high double digits for South Africa (+47%) and Mexico (+37%).² The point is that the breadth and diversity of the asset class creates a wide dispersion of returns, which creates significant potential opportunities for active management.

Conclusion

We think EM debt is a good medium-term option for investors. The asset class offers a credible mix of income, diversification, and potential capital appreciation at a time when developed-market fixed income faces less favorable starting conditions. While the trajectory of the US dollar is an important factor, the balance of drivers looks supportive: improving macro stability in many EM countries, high real yields in parts of the EM opportunity set, and the likelihood that global portfolios will continue to broaden allocations toward non-US assets.

Within EM debt, we view local currency debt as the best opportunity. If the weaker-dollar backdrop persists, local bonds should benefit from the yield available in domestic markets and the additional upside from EM currency strength in US dollar terms. Easing inflation and policy flexibility can provide further support through declining local interest rates. While hard currency EM debt is also a useful complement for income-oriented exposure and diversification, the medium-term EM local market return opportunity set appears more asymmetric, allowing rates and currencies to work together to potentially drive stronger total returns.

1. Source: JP Morgan's Emerging Market Bond Index Global Diversified. Data based on last twelve months ending Feb. 20, 2026.
2. Source: JP Morgan's Government Bond-Emerging Market Index Global Diversified. Data based on last twelve months ending Feb. 20, 2026.

Global credit strategy

Software selloff: Assessing credit risk and navigating the reset

Executive summary

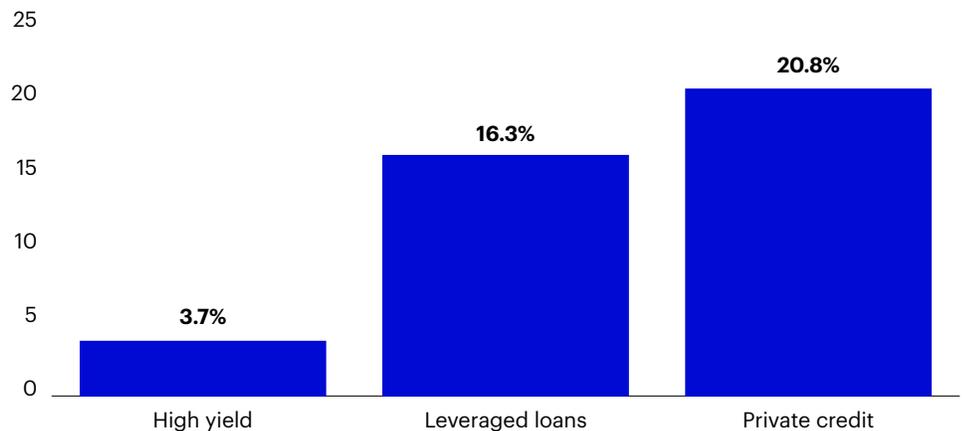
- **AI disruption fears have driven an indiscriminate selloff in software**, erasing significant equity value despite little evidence of near-term earnings deterioration; markets are repricing long-term uncertainty rather than current fundamentals.
- **Credit risk varies sharply across subsectors:** investment grade and high yield software exposures are limited and higher quality, while leveraged loans and private credit face more meaningful vulnerability due to heavier concentration in lower-rated, more leveraged issuers.
- **Software resilience will likely depend on business-model moats and AI adaptability.** Firms possessing proprietary data, deep system-of-record roles, regulatory entrenchment, or strong network effects are better positioned, while more levered or slower-innovating providers face elevated disruption risk.

Over the past several months, negative sentiment has weighed heavily on the software sector as investors grapple with mounting fears of AI-driven disruption. Those concerns accelerated in recent weeks following demonstrations of Anthropic's Claude Code and the release of industry-specific plug-ins for Claude Cowork. The market reaction was swift and indiscriminate: at the lows, nearly one trillion dollars of equity market value had evaporated as investors contemplated whether increasingly capable AI tools could render large swaths of legacy software obsolete. While the market has painted the entire sector with a broad brush, we believe the implications for corporate credit are far more nuanced and vary significantly across subsectors and capital structures.

Dispersion in credit market exposures

The selloff in software equities has spilled into credit markets, though with uneven severity. In US investment grade, software remains a modest portion of the Bloomberg US Corporate Bond Index (roughly 2–3%), limiting the impact of spread widening. The sector's footprint in high yield is similarly small at around 3.7% of the Bloomberg US High Yield 2% Issuer Capped Index.³ Depending on the classification source, software represents a larger "mid-teens" percentage of the broadly syndicated loan universe, and closer to 20% of private credit portfolios (Figure 1).

Figure 1: Software exposure across leveraged finance markets

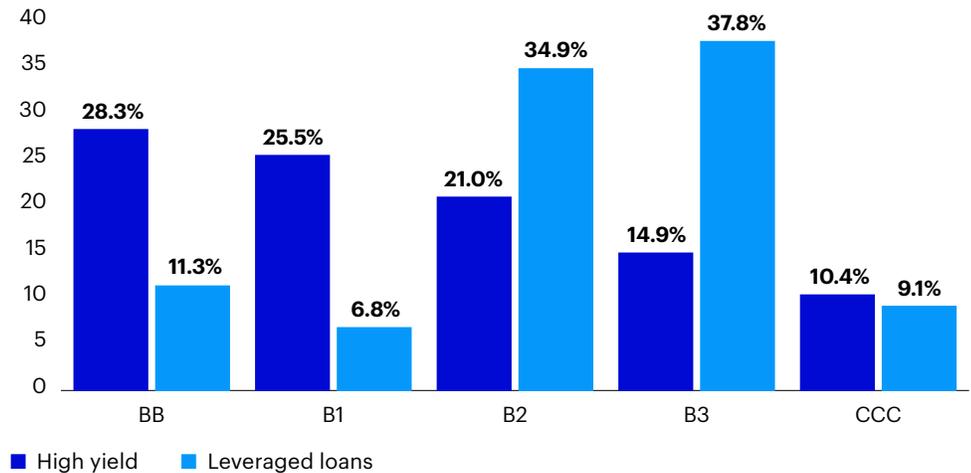


3. Source: Bloomberg L.P. Data as of Feb. 19, 2026.

Source: Bloomberg, JP Morgan. High yield is represented by the Bloomberg US High Yield 2% Issuer Capped Index. For leveraged Loans: PitchBook Data, Inc., Morningstar LSTA US Leveraged Loan Index, Software & Services defined by GICSII Industry Group.

While several highly-levered high yield software credits saw bonds fall sharply, high yield software issuers are generally of higher credit quality compared to leveraged loan issuers. A much greater portion of software loans are concentrated in the B2 and lower rating categories compared to high yield. Roughly 82% of software leveraged loans are rated B2 or below, compared to only 46% in high yield (Figure 2). We are concerned that software-related headwinds could impact syndicated loans and private credit, but we view the risks within the investment grade and high yield credit markets as relatively contained.

Figure 2: Rating distribution of software issuers



Source: Bloomberg, JP Morgan. HY is represented by the Bloomberg US High Yield 2% Issuer Capped Index. Leveraged loans is represented by the Bloomberg US Leveraged Loan Index. Software defined by BICS Industry Group. Rating defined by Bloomberg’s composite rating. Private credit data provided by JP Morgan. Data as of Feb 13, 2026.

Understanding the market’s re-rating

Indiscriminate selling reflects a simple investor narrative: if hyperscalers and leading large language model (LLM) providers can deliver increasingly powerful AI platforms at scale, they present existential disintermediation risk to incumbent “software-as-a-service” (SaaS) applications. New AI coding tools now enable anyone with an internet connection to build functional software—capabilities once reserved for trained developers. AI agents can already generate financial models, automate customer relationship management (CRM) workflows, scrape and synthesize legal research, and perform a growing range of knowledge-intensive tasks. Against this backdrop, investors have begun to re-rate almost all software business models under the assumption that they can be quickly replaced by evolving AI tools. However, the truth is likely much more nuanced.

Importantly, this sentiment shift has occurred despite limited evidence of fundamental deterioration in software earnings thus far. Instead, enterprise values are resetting lower as markets apply a higher discount rate to a more uncertain long-term cash-flow trajectory. We see two primary drivers of this repricing:

1. **Pricing pressure**, as emerging AI-generated applications increase competition and compress the premium historically commanded by established SaaS providers. Pricing has driven much of the revenue growth in the sector in recent years.
2. **Seat-based model risk**, as AI-driven efficiencies and potential headcount rationalizations reduce the number of paying users.

These concerns justify compression in enterprise valuations, particularly for companies with slower innovation cycles or weaker competitive moats. However, the idea that “vibe-coded” applications will rapidly replace all existing software stacks overnight is overly simplistic, in our view.⁴

4. Vibe-coded applications are software applications built using “vibe coding” — an emerging AI-assisted development practice where the developer describes what they want in natural language, and an LLM generates most or all of the code.

A more nuanced view of software resilience

Not all software categories face the same level of disruption risk. Enterprise-grade applications have been built and refined over decades, incorporating industry-specific nuances, regulatory requirements, exception handling and extensive customer support. While some lower-level software platforms will likely prove vulnerable over time, others will likely incorporate AI to enhance their capabilities and value proposition to customers.

Several business-model characteristics should help insulate certain software providers:

- **Proprietary, high-quality data assets** that improve model performance and create defensible moats.
- **Enterprise-grade cybersecurity**, which is increasingly important as AI expands cyber threats.
- **Vertical (industry specific) systems-of-record** that incorporate decades of domain expertise to power an industry's core workflows; Deeply embedded in daily operations, data flows, and transaction execution.
- **Network effects**, where each additional user makes the product more valuable and creates a structural advantage.
- **Focus on highly regulated or conservative end-markets** such as government, financial services, and pharma.
- **Embedded payments or hardware components** that deepen customer lock-in.

Looking ahead

As in past technology cycles, the companies that adapt to the changing environment and present users with the most compelling product will likely create the most value. Large, well-capitalized incumbents can leverage their substantial free-cash-flow generation to invest in AI capabilities and defend their market positions. More leveraged legacy providers may struggle to keep pace, particularly those already facing growth or competitive pressures.

While advanced implementation of the latest AI tools remains limited to early-adopters in Silicon Valley, recent progress in “agentic” systems has unlocked meaningful new use-cases. Broader corporate adoption will likely proliferate as many security, governance, and access-management risks are addressed and codified by emerging enterprise-grade product solutions.

Meanwhile, a new wave of frontier models—trained on NVIDIA's latest Blackwell-series graphics processing units (GPUs)—will likely deliver another step-change in capability over the coming months. As these innovations accelerate, we believe investors will need to continuously update their frameworks to distinguish between companies positioned to harness AI and those at risk of being left behind.

In our view, the credit implications are more differentiated than the initial market reaction would suggest. Investment grade and high yield software exposures are limited and generally higher quality, while leveraged loans and private credit may face more material risks, given their concentration and leverage profiles. The market's broad-brush reaction obscures this nuance, but for credit investors, we believe this is precisely where the opportunity—and the risk—lies.

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Interest rate outlook

US: Underweight

We are underweight US rates as we expect economic growth to strengthen through the first half this year. Forward-looking first quarter data have already exceeded expectations, and we expect this momentum to extend to the labor market as the year progresses. As growth improves, markets are likely to see increased volatility in the number of Federal Reserve (Fed) rate cuts being priced. At the same time, global yield curves have been steepening, pushing risk premiums higher at the long end of the US curve. Taken together, these dynamics lead us to expect a modest rise in US interest rates over the first half of the year.

Europe: Neutral

We maintain a neutral stance on European sovereign yields. Although the outlook for regional economic growth has improved modestly, supported by lower interest rates and German fiscal stimulus, inflation remains below target and is likely to stay subdued. Several factors are driving down inflation, including the diversion of goods originally destined for the US market into Europe at discounted prices, declining energy costs, and euro appreciation.

Multiple European Central Bank (ECB) officials have indicated that policy rates are at, or close to, neutral and we expect them remain so in the near term. While we expect front-end yields to remain anchored by ECB policy, we expect some steepening of the yield curve. Increased issuance related to German infrastructure investment and broader European defense spending, for example, are likely to exert upward pressure on longer-term yields.

China: Neutral

We maintain a neutral stance on onshore Chinese rates for the months ahead and continue to expect a steeper yield curve, especially at the long end. Latest inflation prints have already started to show marginal improvement and more proactive asset reallocation by households may set a floor under onshore yields. On the other hand, the central bank's relatively loose monetary policy and proactive liquidity and funding cost management should help limit a move up in yields.

Japan: Neutral

The decisive electoral victory of Sanae Takaichi has brought about a shift in Japan's macroeconomic environment. The landslide win by the Liberal Democratic Party has provided Prime Minister Takaichi with a strong mandate to implement her policy agenda. This agenda is primarily centred on stimulating economic growth and addressing the persistently high cost of living.

With the ability to enact policy changes and pass legislation more efficiently, market participants have grown less concerned about political instability. This has contributed to a marked retracement in long-term Japanese bond yields, reflecting improved confidence in the country's political landscape.

We expect Takaichi's administration to pursue a range of growth-oriented measures and perceived political stability offers her the flexibility to advance these initiatives without causing major disruptions in the bond or currency markets. However, the Bank of Japan (BoJ) has been slow to raise interest rates. If this cautious approach continues, there could be renewed interest rate and currency volatility, similar to what we observed toward the end of 2025.

Overall, we maintain a neutral stance on Japanese rates. Nevertheless, we favor positions at the longer end of the yield curve, anticipating the curve to flatten as the BoJ gradually increases rates.

UK: Neutral

Our previously constructive outlook on UK government bonds (gilts) has moderated due to emerging political risks and their attendant implications for UK assets. While we expect the Bank of England to reduce interest rates by more than the 50 basis points currently reflected in market pricing, largely because of a weakening labor market and declining inflation, the prospect of a leadership contest within the governing Labor Party introduces uncertainty. This could potentially result in a shift toward less fiscal discipline, which is a material concern for participants in the gilt market.

The UK's weak external position and its dependence on overseas investors to finance a significant twin deficit further constrain flexibility for gilts and expose them to heightened risk if confidence in fiscal prudence deteriorates. Accordingly, we have elected to reduce our overweight exposure to UK assets, favoring a steeper yield curve strategy until such time as political risks have receded.

Australia: Overweight

We maintain our overweight position in Australian government bonds as a relative value strategy compared to US Treasuries. Amid improving economic growth and persistent inflation, the Reserve Bank of Australia (RBA) has shifted rapidly from an easing stance to raising interest rates. As a result, Australian government bonds have significantly underperformed US Treasuries, reaching their highest levels since 2022. While additional rate hikes are anticipated this year, we expect the RBA to be unable to fully meet market expectations due to mixed conditions in the labor market and subdued wage growth.

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Currency outlook

USD: Underweight

We maintain a structural underweight position in the US dollar relative to a broad spectrum of developed and emerging markets. This stance is driven by our outlook for weaker investment returns in the US compared to other regions, as well as an anticipated rise in US dollar hedging ratios among international institutional investors. Furthermore, we expect the Fed to persist in lowering interest rates to support the labor market, even as the economy exhibits above-trend growth and elevated inflation. The incoming Fed Chair, Kevin Warsh, whose term begins in May, will be closely observed by the markets as he seeks to balance the president's call for rate cuts with the imperative of returning inflation to target levels.

EUR: Overweight

We maintain a positive view of the euro, underpinned by expected improvement in the European economy in the coming year and prospects for ECB rate cuts and German fiscal measures. With savings rates at elevated levels across Europe, there is potential for households to increase consumption, further stimulating growth, as tariff uncertainties diminish and energy prices remain low following a mild winter.

Currently, eurozone inflation is below the ECB's 2% target and anticipated to remain subdued in the near term. This trend is reinforced by lower goods prices as Chinese exports, originally intended for the US, are redirected to Europe at discounted rates, combined with low energy costs and a stronger euro. However, the appreciation of the euro has become a concern for the ECB; if the currency moves above 1.20, it could prompt discussions around additional rate cuts. The central bank may consider such measures if further appreciation threatens to depress inflation further, thereby complicating its mandate of price stability.

RMB: Overweight

We are overweight the renminbi over the medium term. We expect continued momentum in US dollar selling by exporters as the trade surplus reached around USD1.2 trillion in 2025 and further progress was made in the renminbi's internationalization process. The substantial growth in China's trade surplus, exporters' sizable holdings of foreign currency and the development of China's cross-border renminbi payment system are likely to support the renminbi's performance over the medium term. Recent actions by central banks and governments in other major markets are also likely to further support the renminbi's outperformance.

JPY: Overweight

We maintain a positive outlook on the Japanese yen. Despite recent volatility, we believe the most challenging period may have passed and that the yen has the potential to perform well in the coming months and quarters. With the recent election over, Japan now has a stable government with a clear mandate to foster economic growth, while addressing the electorate's cost-of-living concerns. A stable yen is essential to achieving these objectives, particularly considering the currency's undervaluation and the recent collaboration between the Fed and the Bank of Japan in "rate checking," which demonstrates the US and Japanese authorities' commitment to stabilize the currency.

The key factor influencing a sustained yen rally remains the pace at which the BoJ adjusts interest rates, given the robust labor market and persistently strong inflationary pressures. It would be prudent for fiscal expansion under the new administration to proceed alongside a degree of monetary tightening by the BoJ, which should provide additional support for the yen. Given Prime Minister Takaishi's strong political mandate, her administration may now be more inclined to consider higher interest rates, especially if the economy continues its recovery from the prolonged low-growth, deflationary environment of the past three decades.

GBP: Underweight

We favor an underweight position in the British pound, anticipating that the Bank of England will reduce interest rates more than the market expects. Underlying this view are ongoing political risks and their potential impact on UK assets. Macroeconomic data continue to indicate a weakening labor market and declining private sector wages, while inflation is projected to fall below the Monetary Policy Committee's (MPC) 2% target in April. The MPC's cautious stance on lowering rates, which has thus far provided some support for the pound, is likely to diminish in effectiveness over the coming months. Furthermore, local elections in May may create a challenging backdrop for the pound.

AUD: Overweight

We continue to favor an overweight position in the Australian dollar. We expect the currency to perform strongly in the coming months and quarters for two primary reasons. First, the RBA has initiated interest rate increases ahead of most other major central banks, excluding Japan, and we anticipate at least one additional rate hike in the first half of 2026. Additionally, we foresee an acceleration in the commodity cycle as global growth strengthens, and manufacturing sectors recover following a long period of weakness, which should provide a strong tailwind for the Australian dollar.



Daniel Phillips
Senior Emerging Market
Strategist

The bottom line

Notes from the ground: Opportunities in frontier debt

Invesco Fixed Income's Senior EM Strategist, Daniel Phillips, recently visited several African countries, where he met with government officials, private sector economists and other institutions. We share his takeaways and their implications for EM asset allocation decisions.

Q1. You recently returned from Africa – which countries were the most interesting from an investment perspective?

Daniel: I visited North Africa late last year and Sub-Saharan Africa this month. Egypt and Nigeria stood out the most - both countries benefit from rapid growth, high local yields and broadly orthodox macro policies that contrast sharply with their recent past. In both cases, earlier periods of unsustainable fiscal and monetary policy ended in painful but decisive adjustments, including devaluations, rate hikes, subsidy reform and official external support. These policy resets have restored credibility and rekindled foreign interest in their local debt markets. Against the backdrop of a weaker US dollar that helps all EM, I find stories like Egypt and Nigeria – countries with a domestic turn-around angle - to be very compelling.

Q2. You mentioned the US dollar - how does a weaker dollar provide a tailwind for EM?

Daniel: A weaker dollar reduces external financing stress for EM countries by easing pressure on their currency reserves and lowering the burden of servicing their external debt. It also supports capital flows into high-yielding local debt markets, like Egypt and Nigeria. As the dollar has weakened amid policy uncertainty in Washington, global risk appetite has been more forgiving toward EM, including the so-called “frontier” markets, especially ones that have implemented reforms like Egypt and Nigeria. The softer dollar has given their central banks more room to prioritize disinflation and currency stability without the need to maintain excessively tight monetary policy.

Q3. The US dollar might be a tailwind to all EM, but are you comfortable with the macroeconomic policy in these two countries?

Daniel: Yes, economic policy is on track. In Nigeria, inflation has eased into the mid-teens and foreign currency reserves are strong; gross reserves stand near USD50 billion.⁵ Even with such strong numbers, the central bank is deliberately cautious in easing monetary policy, preferring to cut rates slowly and risk being late rather than undermining inflation credibility or currency stability. It's hard to say what the world will look like in twelve years, but over the next twelve months, Nigeria seems keen to stick to its current policy mix. It's healthy to be skeptical, but through this long period of retrenchment, the government has done almost everything it set out to do.

In Egypt, local yields are high and the currency has enjoyed remarkable stability over the past two years, following a large devaluation and an extraordinary financial rescue from some of its neighbors. Inflation is falling, and the central bank is easing cautiously to preserve positive real rates and defend the currency. As the country exits a largely successful IMF program, the burden of discipline is now shifting squarely onto domestic policy choices. We believe the authorities will stick to the reform path they are currently on and simultaneously maintain robust support from their allies in the Gulf region. Stress tests suggest that even a sizable geopolitical shock, such as a regional conflict escalation, would likely result in manageable outflows and currency depreciation.

Q4. What role does oil and the external sector play in Nigeria's outlook, and what risks could still derail the story?

Daniel: Nigeria remains structurally dependent on oil, but the external breakeven price - the price needed to keep the current account in balance - has improved significantly.

5. Source: Monetary Policy COMMUNIQUE No.161, Feb. 24, 2026.

I visited the massive Dangote oil refinery that – along with the government reform program – is helping push the current account into a more durable surplus. This amazing refinery – Africa’s biggest and state of the art refinery – will likely reduce the need to import expensive refined oil, potentially supporting the Nigerian naira. So, oil is still important, but becoming less so. The main risk is that this government, or the next one, loses enthusiasm for what has proven to be a very successful reform story. That being said, the government has done a remarkable job so far, and routinely pledges to continue on its reform path.

Q5: What are the main investment implications of your on-the-ground observations in Egypt and Nigeria?

Daniel: The euro and US dollar denominated government bonds issued by Egypt and Nigeria have already priced in much of the good news, in our view. We believe the currencies themselves, and the short-term local currency government bonds are the appropriate ways to play these frontier stories.

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