Global Fixed Income Strategy

AUGUST 2026

In this issue

Turgut Kisinbay
Chief US Economist

James Ong
Head of Macro and Quantitative Research

Mark McDonnell
European Economist

Julien Eberhardt
Fund Manager

Global macro strategy

Are developed markets overpricing rate hikes?

Key takeaways

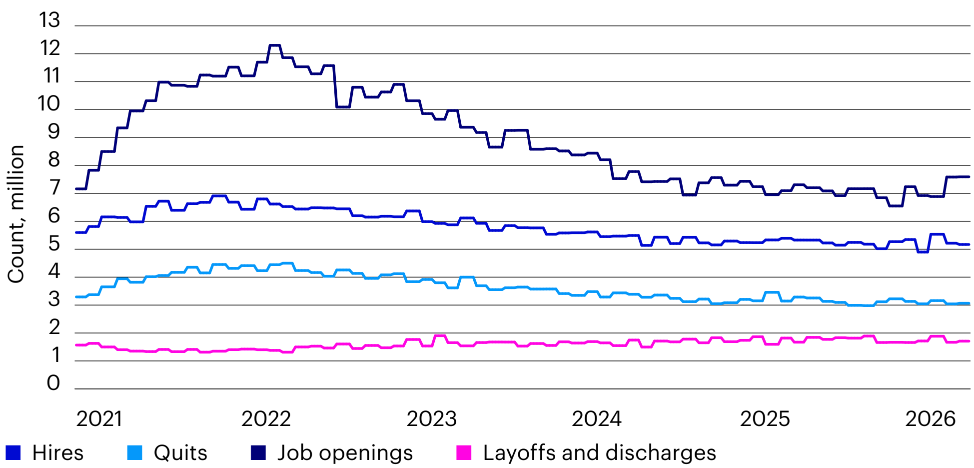
- **We believe developed markets (DM) are currently overpricing rate hikes, making the short end of DM yield curves look attractive.**
- **US inflation and policy outlook:** Cooling inflation and moderating growth should allow the Fed to stay on hold, relying on hawkish communication rather than additional rate hikes.
- **Portfolio implications:** Markets appear overly priced for further Fed tightening, creating potential upside for front-end and intermediate-duration bonds if disinflation continues.
- **Europe/UK inflation and policy outlook:** Rising energy prices have revived the risk of ECB and BoE hikes, but improving underlying inflation trends suggest any additional tightening could ultimately prove temporary.
- **Portfolio implications:** Markets may be overestimating future ECB and BoE tightening, supporting opportunities in the front end of European bond curves while leaving long-end duration less attractive.

While bond markets continue to price additional central bank tightening in the US, Europe, and the UK, we believe rate hikes are overpriced. Underlying inflation trends suggest that policymakers may remain cautious. Below, we highlight where we believe market pricing has diverged from economic fundamentals, creating potential opportunities at the front end of rates curves.

US: Cooling inflation will likely keep the Fed on hold

In the US, we believe inflation peaked in the second quarter and should moderate over the coming months. Recent data are consistent with this view: price pressures across the broader goods sector remain contained, shelter inflation continues to slow on a year-on-year basis, and more timely measures of market rents point to further moderation ahead. The effects of earlier tariff and energy shocks should also fade, absent renewed geopolitical tensions that produce another sustained rise in commodity prices. Meanwhile, domestic demand is cooling modestly below its potential pace, and the labor market is settling into a stable, low-hire, low-fire equilibrium — firms are cautious about adding workers, but layoffs remain low. Together, these dynamics should limit the risk of a renewed inflationary impulse, while allowing the economy to avoid a sharp downturn.

Figure 1: US employment JOLTS data



Source: Macrobond. Data from Jan. 1, 2021 to May 25, 2026.

This outlook leaves the Federal Reserve (Fed) in a good position to wait out a policy move over the next few meetings. It is likely to maintain a hawkish tone, particularly while uncertainty around tariffs and energy prices remains elevated, but communication (rather than actual hikes) is likely to be its first line of defense. Further rate increases would likely require convincing evidence that expected disinflation has stalled or reversed, not simply a temporary rise in headline inflation caused by supply-side shocks. Our central case is that inflation will continue to ease, growth will remain somewhat below potential, and the labor market will stabilize without significant deterioration.

Portfolio implications

This macro backdrop is constructive for US fixed income, in our view. The bond market is currently discounting roughly two and a half additional Fed hikes, whereas our base case is for an extended hold. If disinflation continues to print in line with our expectations, we expect the hike premium to erode, delivering a meaningful tailwind to front-end and intermediate duration. We expect a steepening bias in the near term, as hikes get priced out. The long end is likely to lag, reflecting an elevated term premium, Treasury supply dynamics and residual inflation risk.

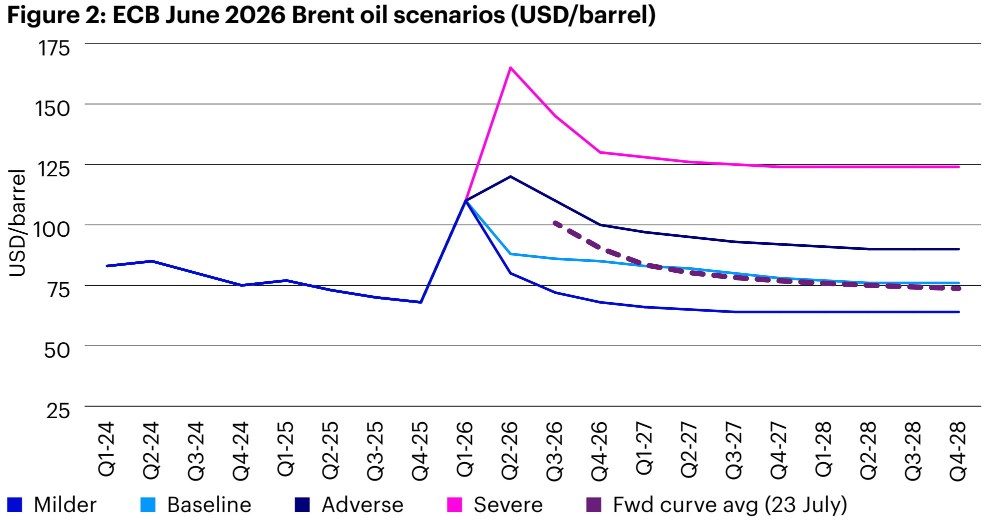
In currencies, the US dollar has been supported by the hawkish rate path embedded in federal funds rate expectations. As that pricing unwinds, we believe the bias will be for the dollar to soften modestly, though the move should be contained by US domestic growth that is running below potential and by the fact that other developed market central banks are nearing the ends of their own tightening cycles. We would lean against dollar strength rather than into it. The clearest tail risk, in our view, remains energy. A renewed commodity spike could validate the market's hawkish pricing, stall the disinflation narrative and reintroduce a sharp repricing across both interest rates and the dollar.

Europe/UK: September rate hikes in play, but inflation targets are still in sight

Recent macro data from the eurozone and the UK have improved, with growth proving slightly firmer and inflation outcomes more benign than expected. However, renewed conflict in the Middle East has once again pushed energy prices higher, with European gas prices repricing sharply in recent weeks.

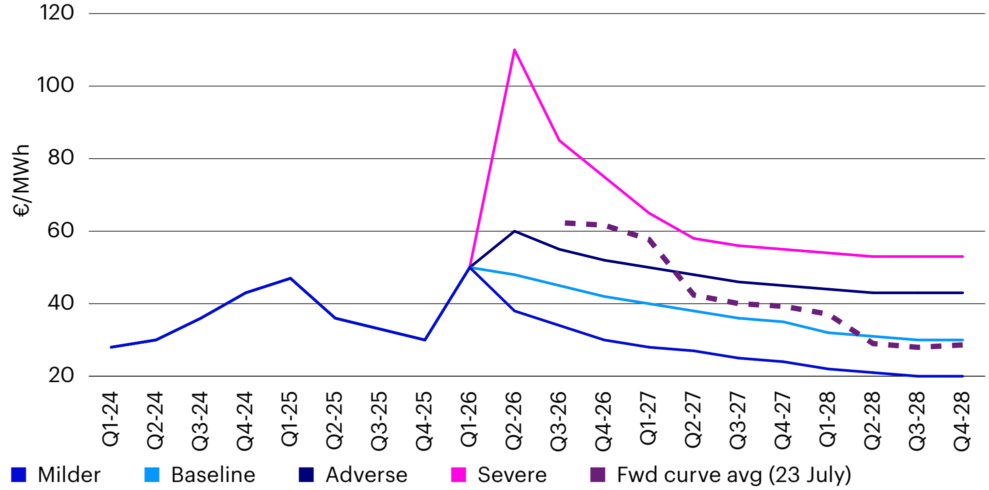
One useful way to frame the shift is through the European Central Bank's (ECB) scenario analysis. Just two weeks ago, energy prices were broadly consistent with the ECB's mild scenario, under which further rate hikes would not have been necessary. Today, oil prices sit somewhere between the mild and baseline scenarios, but more concerningly, gas prices sit between the baseline and adverse scenarios. As a result, there are now clear upside risks to our view that inflation is likely to peak in the low-to-mid 3% range.

Figure 2: ECB June 2026 Brent oil scenarios (USD/barrel)



Source: ECB staff macroeconomic projections, June 2026. There can be no assurance that projections shown will come to be.

Figure 3: ECB June 2026 TTF gas scenarios (€/MWh)



Source: ECB staff macroeconomic projections, June 2026. There can be no assurance that projections shown will come to be.

We therefore believe further ECB and Bank of England (BoE) rate hikes are back on the table, although the hurdle for additional tightening appears higher in the UK, given the softer labor market backdrop. While both central banks are likely to leave rates unchanged in July, September is very much a live meeting and will depend heavily on the path of energy prices over the coming weeks. The ECB appears increasingly predisposed to hike in September. It would likely take a meaningful decline in energy prices over the coming weeks to alter that course.

That said, we remain more sanguine on the inflation outlook for 2027 and 2028. This reflects two considerations: First, underlying inflationary pressures — as measured by productivity-adjusted wage growth — are broadly consistent with inflation returning to target in both economies. Second, even if higher energy prices generate some second-round effects, we would expect them to be modest and insufficient to materially alter that trend. As a result, if the ECB or BoE tighten policy further over the summer, we see a high probability that those hikes would be ultimately reversed in 2027.

Portfolio implications

Given that inflation outcomes have been more benign than expected in both the eurozone and the UK, and if the resumption of the Iranian conflict does not lead to a sustained rise in energy prices, we remain unconvinced that policymakers are at the start of a new multi-hike tightening cycle. While the ECB has already delivered an additional rate increase and markets continue to price approximately 2.5 further hikes, and despite the BoE currently remaining on hold with a similar amount of tightening still embedded in market expectations, we believe these expectations may be on the too hawkish side. In our view, underlying inflation dynamics continue to improve and should allow both central banks to maintain a cautious approach. As a result, the front end of the European government bond and gilt curves, particularly in the 5-7 year sector, appears attractive. We see limited justification for markets to price in substantially more tightening from current levels and, if the inflation outlook evolves broadly as we expect, there is scope for investors to instead begin pricing out some of the hikes currently embedded in forward curves, creating a supportive backdrop for this part of the market.

While government bond curves have steepened, we continue to believe that term premia at the long end remain insufficient to adequately compensate investors for the risks involved. We are being asked to absorb a growing supply of government issuance against a backdrop of mounting structural fiscal pressures, including aging demographics, significant investment requirements in energy infrastructure, and higher defense spending. At the same time, the absence of a strong and expanding natural buyer base for long-dated government bonds reduces an important source of support for the market.[1] Furthermore, with economic growth remaining relatively benign, we do not see a sufficiently compelling macroeconomic backdrop to justify taking significant duration risk at the long end of the curve.

1. We have seen less demand for long-dated government bonds from UK pension funds, as schemes are better funded and hedged. Dutch pension reforms have meant Dutch pension funds have required less fixed income and long-dated bonds in their investment portfolios. In Japan, there has been less demand from life insurance companies at the long end, as their assets and liabilities are better matched with rising yields. In addition, quantitative tightening is ongoing from the European Central Bank, the Bank of England and the Bank of Japan.

Stanislav Gelfer
Senior Strategist

Manuel Terre
Sovereign Analyst and Strategist

Global credit strategy

EM resilience in action: Reform stories from four key markets

Key takeaways

- **Argentina:** Fiscal, monetary and structural reforms have transformed Argentina's macro outlook, supporting lower inflation, improved market access and a sovereign credit re-rating, although refinancing risks and policy continuity remain critical.
- **South Africa:** Credible monetary policy, fiscal discipline and ongoing structural reforms, combined with favorable commodity dynamics, have strengthened South Africa's resilience to external shocks and supported currency and local bond market stability.
- **Romania:** Front-loaded fiscal consolidation has exceeded expectations, helping reduce twin-deficit vulnerabilities, preserve access to EU funding and reinforce the country's path toward improved creditworthiness, despite political uncertainty.
- **Indonesia:** Strong fundamentals and investment-grade status have been tested by the Middle East energy shock, prompting a shift toward more orthodox policies as authorities seek to balance growth objectives with external stability and currency resilience.

In previous notes, we argued that emerging markets (EM) have become more resilient to external shocks following two decades of reforms, many accelerated by global risk-off episodes, most recently the 2022 energy crisis. As a result, many mainstream and frontier EM economies have reduced macro imbalances and improved their inflation-growth trade-offs—as they manage the most recent energy-related shocks. However, important country-level differences remain, with further reforms—particularly in fiscal policy—still needed in several cases.

The four countries highlighted below illustrate how ongoing reforms are strengthening resilience amid the recent Middle East crisis and resulting energy shock. Argentina shows how comprehensive macroeconomic adjustment can drive a high-yield sovereign re-rating. South Africa demonstrates steady policy progress supported by an improved political backdrop. Romania's front-loaded fiscal consolidation is helping insulate a twin-deficit economy from external volatility while supporting its upgrade trajectory. Indonesia, despite investment-grade status and strong fundamentals, highlights the challenges of balancing growth and stability in the face of a severe energy-driven terms-of-trade shock.

Argentina

Argentina has emerged as one of the most prominent turnaround stories in EM. Since taking office in late 2023, President Javier Milei's administration has radically overhauled the policy framework that dominated the country during the previous two decades of left-wing leadership. The core of Argentina's historical economic instability stems from weak fiscal dynamics, which triggered severe macroeconomic distortions.

Strong fiscal correction: The administration's aggressive correction of fiscal imbalances yielded immediate results. A steep fiscal deficit in 2023 shifted to a slight surplus in 2024, followed by a minor deficit in 2025. Going forward, we expect the government to maintain modest fiscal surpluses.

Foreign exchange normalization: A comprehensive deregulatory push eliminated trade barriers and foreign exchange restrictions. By establishing a freely determined exchange rate within a widening band framework, the administration successfully closed the gap between the official and informal currency markets.

Inflation reduction: These monetary and fiscal measures reduced inflation from highs in the triple-digits to an annualized rate of approximately 25–30%.

Reserve accumulation: Net international reserves, which were deeply negative at USD -8.5 billion in 2023, are projected to reach near-zero net levels by the end of 2026.

Structural reforms: Along with macroeconomic stabilization, a structural reform agenda targeting public procurement, labor markets and investment programs has boosted business sentiment. This optimism is particularly evident in export-oriented sectors like oil and gas.

Consequently, even without actively tapping the eurobond markets, Argentina has effectively restored its broader market access. Sovereign bond yields have fallen to single digits. This positive momentum is heavily supported by recent credit rating upgrades from all three major global rating agencies. Most notably, Moody's Ratings upgraded Argentina's credit rating to B3 and changed its outlook to positive in July.

Despite this remarkable progress, Argentina remains a high-yielding sovereign borrower with substantial gross financing needs over the next few years. The primary risk ahead centers on debt refinancing prospects, which could be heavily impacted by core global interest rate dynamics and domestic politics. Sustaining a path of strict policy continuity remains imperative for Argentina to stay on its credit re-rating trajectory.

Figure 1: Market's re-rating of Argentina ahead of the Middle East crisis

Argentina spread less EMBI spread

Source: Macrobond, Invesco. Data from Sep. 2, 2025 to July 23, 2026. EMBI is the JP Morgan Emerging Markets Bond Index.

South Africa

South Africa is a clear example of the improvement in policy frameworks across EM. Orthodox monetary policy decision making, a disciplined fiscal stance, and cyclical external account buffers have insulated South Africa's economy against recent geopolitical and commodity shocks, earning market validation.

Hawkish monetary orthodoxy: The South African Reserve Bank (SARB) lowered its inflation target to 3.0% late last year (down from 4.5%). The SARB was an EM "first-mover", hiking the repurchase rate by 25 basis points in May this year, reflecting a highly credible defensive stance.

Fiscal discipline and anchors: The National Treasury consistently targets primary budget surpluses and debt stabilization. Formalized debt-to-GDP anchors are scheduled for official release in October.

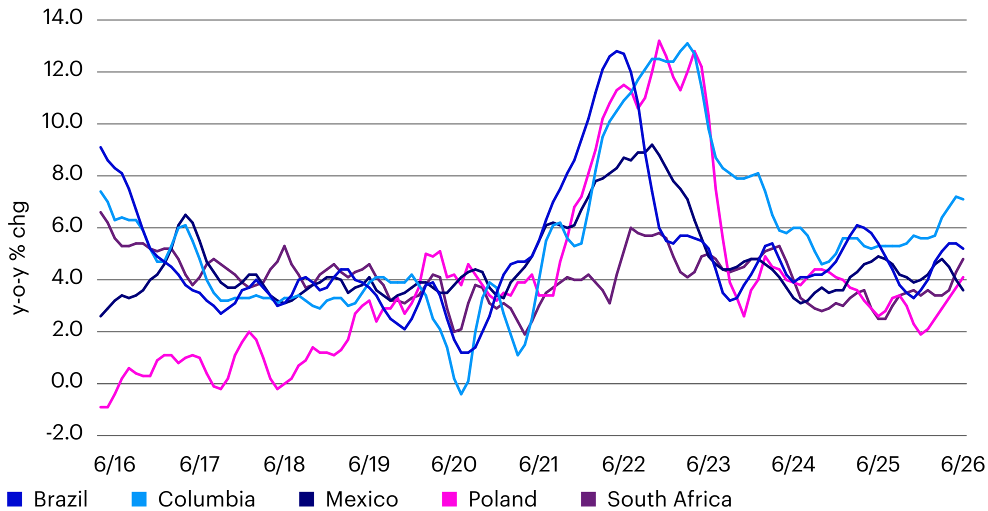
Targeted relief: Policy cushions, such as the fuel tax reduction, were explicitly designed with strict sunset clauses to prevent long-term structural deficits.

Structural reforms: The government has targeted chronic energy and logistics infrastructure bottlenecks to lift long-term potential GDP. These moves are on top of a cyclical uplift in the balance of payments, helped by commodity tailwinds, as an 18-month rally in precious metals and gold has significantly strengthened South Africa's terms of trade. The improvement in current account dynamics has created a macroeconomic cushion, neutralizing the negative terms-of-trade shock of rising oil prices.

Market dynamics have reflected such policy improvements and external cyclical support—the currency and local interest rates have remained relatively resilient, despite the oil-related terms of trade shock.

Figure 2: South Africa's low inflation before Middle East crisis reflects deep macro reforms

Core CPI inflation, y-o-y % change



Source: Macrobond, Invesco. Data from April 1, 2016 to June 1, 2026.

Romania

Following the 2024/2025 electoral cycle, Romania has embarked on a comprehensive fiscal consolidation path. Large and persistent fiscal deficits have been at the core of Romania's balance sheet weakness, characterized by a large current account deficit and rising debt levels. From the start of 2025, authorities have pursued a heavily front-loaded fiscal consolidation path, to secure European Union (EU) funding and improve Romania's ratings. This fiscal progress is now helping shield Romania from external macro shocks.

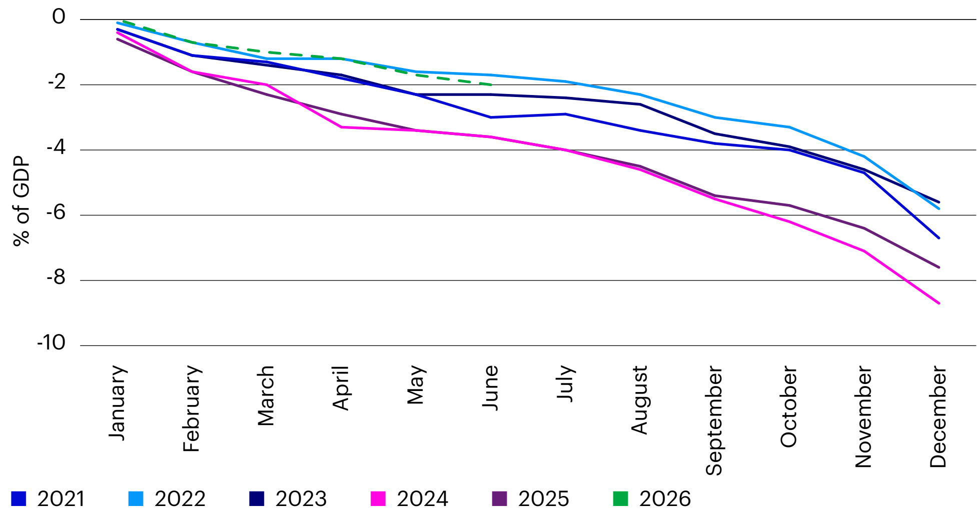
Successful fiscal consolidation approach: Romania's fiscal consolidation mix relies heavily on revenue measures, including a large increase in the value added tax rate and a broadening of the tax base, as well as hikes to social security contributions, excise and property taxes. On the expenditure side, the government adopted a crucial nominal freeze in wages. Broader spending controls are anchored with an expenditure ceiling.

In 2026, the government under Prime Minister Bolojan produced fiscal reforms aimed at local administration. The government also passed the public sector wage law, which will effectively limit indexation to below inflation, which is key, given that wages will no longer be frozen in 2027. These two measures, worth some 1.5 percentage points of GDP, will likely ensure further consolidation in 2027 without any new measures being adopted.

So far, fiscal consolidation is outpacing expectations. The consolidated deficit for the January-May period of 2026 was 1.7% of GDP, compared to 3.4% in the same period last year. If this path is maintained, the 2026 deficit could total 5% this year, below the target of 6.2%. This strong fiscal outperformance to date is key to staying within the EU Commission agreed targets and is the main reason why the ongoing contested political power within the ruling coalition does not materially change the outlook for the budget, in our view.

Figure 3: Romania's budget performance tracks 5% of GDP for full year

Consolidated budget balance, % of GDP



Source: Macrobond, Invesco. Data from Dec. 31, 2021 to June 30, 2026.

Indonesia

Asia is the most vulnerable region facing the ongoing crisis in the Middle East and related terms-of-trade shock. In the run-up to the current crisis, Indonesia had not been generating much inflation and, following the regime change in 2024, the authorities had shifted focus to prioritizing growth by sharply easing monetary and fiscal policy. Facing only small current account and fiscal deficits and a relatively strong balance sheet (low debt and high foreign exchange reserves), the authorities believed they had more time to react to the current crisis. In the face of difficult trade-offs, however, policy adjustments are being made now.

Current account pressures: We think the key macro problem in Indonesia is a narrow but persistent current account deficit, coupled with limited inflows on the capital account side because of weak domestic investment and sluggish foreign inflows. Since the regime change in 2024, capital account data have shown increasing domestic outflows.

The key outcome is a persistently weak currency, but not weak enough to boost exports (mostly commodities) and reduce imports. What is required, in our view, is some degree of expenditure compression, which would likely slow growth and inflation and contain the current account deficit. This is the policy shift that we have been looking for and we now see the authorities moving toward more orthodoxy in this regard.

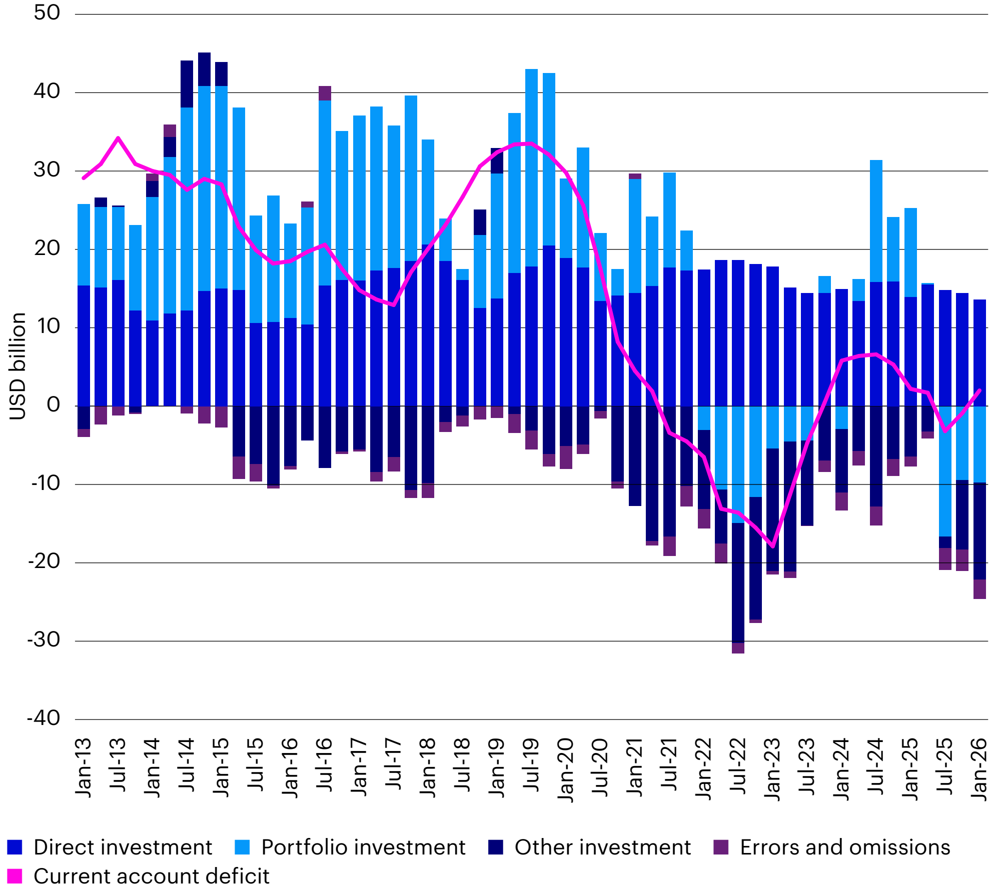
Monetary discipline: On the monetary policy front, the central bank is starting to reverse the past year's sharp policy easing with interest rate hikes. Average auction yields on money market instruments controlled by the central bank have risen and the Ministry of Finance and central bank are refraining from bond purchases, which allows bond yields to rise in line with market conditions. We think the central bank has become concerned with preserving foreign exchange reserves and is now looking to allow higher yields.

Policy stability a key objective: Generally, amid rising uncertainty, the president appears to be giving more decision-making power to the central bank and Ministry of Finance when it comes managing the economy. Policy stability is important and the recent decision by S&P to maintain its "stable" outlook on Indonesia's credit rating reflects this goal.

Risks we are monitoring: Risks and challenges remain on the policy front. Indonesia's president continues to prioritize his spending agenda by moving much of it to the newly created state fund, Danantara, which weakens the emphasis on fiscal discipline and commitment to the 3% deficit cap. And the central bank continues to prefer temporary liquidity management to drive up money market rates rather than outright interest rate increases to improve yield differentials and encourage long-term inflows.

Figure 4: Indonesia's narrow current account balance has not offset rising capital account outflows

Balance of payments indicators, 12-month rolling sum, USD billion



Source: Macrobond, Invesco. Data from July 1, 2005 to Jan. 1, 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

Interest rate outlook

US: Neutral

We maintain a neutral stance on US interest rates. The bond market is currently pricing in almost two Fed rate hikes over the next year, while we expect policy rates to remain on hold, given easing inflation pressures and trend-like economic growth. Under normal circumstances, current market pricing would provide sufficient risk premium to justify a long duration position. However, elevated geopolitical risks and uncertainty argue against taking a more directional view. With both economic and geopolitical outcomes uncertain, we believe the balance of risks is broadly even, and therefore remain neutral on longer-term rates.

Europe: Neutral

The 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 an additional risk premium for further policy tightening. Yields are beginning to look attractive, in our view, with elevated hike pricing and a 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 remain positive on Chinese onshore government bonds and expect them to outperform developed market peers in the coming months. Supportive macro policies, relatively lukewarm domestic demand and strong export growth are expected to contribute to demand for central government bonds. The central bank began overnight reverse repo operations at the end of June and highlighted that loan growth is expected to be of lower quantity but higher quality. We believe overall financial conditions should be assessed based on the combination of loans and bond issuance. The upcoming Politburo meeting will likely be closely watched for the country's macro policy direction in the second half of 2026.

Japan: Underweight

10-year Japanese government bond (JGB) yields reached a record high of 2.90% in early July, reflecting market concerns about further fiscal easing after the Takaichi government announced a JPY370 trillion, 15-year investment program targeting 17 strategic industrial sectors, including AI.[2] We estimate the program could contribute 0.5%–1.5% to annual GDP growth. In addition, the second quarter Tankan survey and wage data pointed to a positive outlook for future economic growth.

The combination of solid growth momentum, sticky inflation, and ongoing fiscal easing should keep JGB yields elevated, driven by expectations of further Bank of Japan (BoJ) rate hikes and concerns about increased bond supply. Yields retraced around half of their early July rise after the government announced that the Government Pension Investment Fund of Japan (GPIF) should increase its allocation to Japanese assets, including JGBs.

While increased GPIF investment could provide long-term support, any shift in asset allocation is likely to be gradual, with changes unlikely before April 2027. GPIF demand may help limit further increases in long-end yields, but it is unlikely to prevent additional rises at the short end, where yields will likely continue to be driven by expectations for BoJ tightening. The balance of risks appears skewed toward a faster and more sustained hiking cycle than currently priced by the market, as yen weakness, improving growth, and rising prices and wages support further normalization of monetary policy.

2. Source: Bloomberg L.P. Data as of July 21, 2026.

UK: Neutral

UK gilt yields have risen by 30 basis points over the past month, with 10-year yields moving above 5%.[3] Gilts have also underperformed both US Treasuries and German bunds. The increase in yields largely reflects concerns that the recent rise in energy prices could force the Bank of England (BoE) to raise rates, alongside fears that the government under Prime Minister Burnham may pursue a looser fiscal policy than the previous administration.

While uncertainty around energy-driven inflation and continued demand for global savings from both corporate capital expenditure and fiscal spending are likely to keep yields elevated, the scope for further sell-offs and UK-specific underperformance appears more limited, in our view, particularly at the front end of the curve. The yield curve is likely to steepen, as the market already appears to be pricing a substantial inflation impulse from persistently higher energy prices. Using the BoE's April scenario analysis as a guide to its likely reaction function, there appears to be limited room for further repricing of short rates.

Fiscal policy concerns are unlikely to ease materially before the Burnham administration's first budget in October/November, which should keep long-end yields anchored around current levels. At the same time, UK inflation is no longer a significant outlier, and a weakening labor market should weigh on inflation going forward. This should support greater convergence between UK rates and their US and eurozone equivalents, particularly at shorter maturities.

Australia: Neutral

Australian 10-year yields have risen by almost 25 basis points over the past month to near 5%, largely in line with US Treasuries and reflecting the global nature of the recent rates move.[4] Domestic data remain mixed, with signs of a slowing housing market, offset by some improvement in business and consumer confidence. Markets are now pricing in an almost 25 basis point additional rate hike in 2026, which appears somewhat excessive given the possibility of a pause in the Reserve Bank of Australia's hiking cycle. Long-end yields look more attractive from a valuation perspective, in our view, but there is currently no clear catalyst for a significant rally from either global or domestic factors.

3. Source: Bloomberg L.P. Data as of July 21, 2026.
4. Source: Bloomberg L.P. Data as of July 22, 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: Overweight

The shift in relative interest rate expectations over the past quarter, plus the market's continued faith in the AI-linked US growth story favor the US dollar, in our view. We expect the US's positive growth differential to persist, supporting our overweight stance on the US dollar for the coming quarters. If the market proves to be overly complacent on the Iran conflict's resolution, we would also expect the US dollar to benefit from safe haven flows.

EUR: Underweight

We expect European currencies to be laggards, as growth in the region continues to be lackluster and negative interest 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. At the China Development Forum, Central Bank Governor Pan said that China has no need or intention to use currency depreciation to gain a trade advantage. China will likely facilitate more international investment in Chinese capital markets and further improve arrangements for renminbi cross-border use. In our view, these efforts could indicate that China may use the window of US dollar strength to keep the USD/RMB pair relatively stable, while potentially showing strength against other major currencies. This strategy is in addition to the substantial Chinese trade surplus recorded year-to-date.

JPY: Neutral

The USD/JPY exchange rate has reached new highs, driven by higher US rates and renewed concerns about rising energy prices, prompting Japanese authorities to step up their rhetoric on currency weakness, but intervention has so far been absent.

A potentially significant longer-term development is the government's call for GPIF to increase its allocation to Japanese assets, which currently account for around half of its portfolio. However, any changes to GPIF's asset allocation are unlikely before the start of the 2027 financial year.

In the meantime, the yen is likely to remain driven by global interest rate and energy market developments. If US and European yields continue to rise, further widening interest rate differentials, and energy prices remain elevated, a sustained appreciation of the yen appears unlikely.

GBP: Underweight

The British pound has appreciated by more than 1% against both the US dollar and the euro over the past month.[5] This outperformance is difficult to justify on fundamental grounds. UK growth remains subdued, the political backdrop is not particularly supportive, although perhaps less negative than feared, and interest rate differentials have changed little.

A more plausible explanation is short covering, particularly against the euro. In a low-volatility environment, the negative carry associated with short pound positions has likely encouraged investors to close bearish trades.

Looking ahead, the scope for further pound outperformance appears limited. Interest rate differentials are likely to narrow, while the fiscal risk premium is unlikely to dissipate quickly.

AUD: Neutral

The Australian dollar has appreciated modestly against the US dollar over the past month, supported by the underperformance of Australian short-end rates relative to US rates following weaker US employment and inflation data. A sustained rise in commodity prices could provide additional support for the Australian dollar, particularly against Asian and European currencies. However, this support may be limited if it is accompanied by weaker global risk sentiment.

5. Source: Bloomberg L.P. Data as of July 20, 2026.

Panelist

Matt Brill
Head of NA Investment Grade

Todd Schomberg
Head of Investment Grade Portfolio Management

The bottom line

Thoughts from the Investment Grade desk

The Fed has entered a new phase, with markets adjusting to less forward guidance and still-sticky inflation. At the same time, elevated yields continue to support fixed income returns, though focus is sharpening around hyperscaler issuance. We talk with portfolio managers Matt Brill and Todd Schomberg about these key market drivers.

Q: Under new Fed Chair, Kevin Warsh, the market seems to be bracing for much less hand-holding on policy guidance. What does this mean for fixed income?

Todd: From a bond market perspective, we separate the front end of the yield curve from the long end. At the front end, the market has priced in some risk of additional hikes, but we think the bar for the Fed to actually hike is high. Inflation would likely need to prove stickier for longer. This creates potential opportunity at the front end of the curve.

Further out the curve, a Fed that is focused on removing inflation from the system can be supportive. If investors gain confidence that policy is aimed at restoring inflation toward target, longer-duration bonds can benefit. We think this remains an attractive environment to selectively extend duration and lock in elevated yields.

Q: As that backdrop in rates materializes, how are we thinking about credit markets?

Matt: We think income remains the primary driver. Investors entered the year with elevated yields and that carry income has helped cushion volatility. Even with credit spreads near the tighter end of their range, the yield available in high-quality fixed income remains compelling, in our view.

That said, this is not a market where investors should simply reach for spread. Valuations are full in many areas, so security selection matters. We believe active management is especially important when compensation is less generous but dispersion beneath the surface is still meaningful.

Q: Speaking of dispersion and security selection, what has been driving the recent spread widening in hyperscaler bonds? Is it a fundamental story, a technical story, or both?

Todd: At this stage, we would characterize the move as primarily a technical phenomenon rather than a deterioration in underlying credit fundamentals. The market is attempting to absorb an unprecedented amount of debt issuance tied to the AI infrastructure buildout, while expectations for future capital expenditures continue to move higher. Each earnings season seems to bring another round of upward revisions to spending plans, which has reinforced the perception that supply is likely to remain elevated for the foreseeable future. As a result, investors are demanding greater compensation to absorb the growing volume of bonds coming to market.

On the other hand, the fundamental backdrop remains relatively strong. Many of the largest hyperscalers continue to maintain exceptionally healthy balance sheets, substantial liquidity, and leverage metrics that remain well inside investment-grade norms. Additionally, the AI-related capex cycle itself continues to support broader economic activity through data center construction, infrastructure investment, and corporate spending. While investors are debating the ultimate return on these investments, there is little evidence today that the sector's underlying credit quality has deteriorated in a meaningful way.

Q: How significant has the widening been, and could it spill over into the broader investment-grade market?

Matt: Spread widening has been most pronounced among AI-related issuers, hyperscalers, and technology credits directly tied to the infrastructure buildout. One notable example is SpaceX, whose inaugural 10-year bond price around Treasury +110 basis points at issuance and is trading today around +165 basis points in the secondary market after having moved materially wider.[6] For a bond that is only weeks

6. Source: Bloomberg L.P. Data as of July 30, 2026.

old, that represents a meaningful repricing of risk and a clear signal that investors are demanding greater spread compensation as supply continues to build.

By contrast, the broader investment-grade market has remained relatively resilient. While spreads have moved modestly wider from their tightest levels, the Bloomberg U.S. Corporate Index remains comfortably within its trading range for the year. In other words, the recent weakness has largely been concentrated within the AI and Technology, Media, and Telecommunications complex rather than reflecting a broad-based deterioration in investment-grade credit conditions.

That said, it is difficult to completely isolate one of the fastest-growing segments of the market from the rest of the asset class. If AI-related issuance continues to reprice wider, we believe some degree of spillover into other investment-grade sectors may be inevitable. The question is probably one of magnitude rather than direction.

Q What are the risks going forward?

Todd: The most immediate risk is that the market continues to underestimate the scale and duration of the AI investment cycle. Each round of earnings has generally brought higher capex expectations, which raises the likelihood of continued debt issuance and ongoing pressure on spreads. Even if fundamentals remain intact, supply alone can keep valuations under pressure.

Beyond the technical backdrop, investors will increasingly focus on return on investment. While the hyperscalers have the balance sheets and cash flow to support today's spending levels, the market will eventually want evidence that these massive investments are translating into sustainable revenue growth and earnings power.

Finally, concentration risk has become more important. Technology and AI-related issuers now account for a much larger portion of the investment-grade market than they did just a few years ago. If spreads continue to widen in that segment, the impact is more likely to be felt across the broader credit market.

Q: Does this create an investment opportunity, or does it make us more cautious on the sector? How are we approaching it?

Matt: We are cautious, but we have started to see some opportunities. We have recently seen issuers bring investment grade issues to market yielding 7-8% which are appealing levels for investment grade debt.[7] For investors seeking income, the combination of attractive absolute yields and fundamentally strong issuers is compelling.

However, we remain mindful of the technical pressures facing the sector and recognize that additional volatility is possible given the ongoing financing needs associated with AI infrastructure investment. Our approach remains grounded in bottom-up credit research. The key question is not whether AI spending continues, but rather which companies possess the balance sheet strength, competitive position, and cash-flow generation necessary to endure a potentially prolonged period of elevated investment.

At the portfolio level, we are equally focused on diversification and concentration risk. While the AI buildout presents exciting opportunities, we do not believe investors should treat the sector as a monolith. Differentiation across issuers will likely become increasingly important as the cycle matures. For that reason, we are selective with our exposures and continue to maintain discipline around position sizing and overall portfolio diversification.

7. Source: Invesco. Data as of July 30, 2026.

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

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

Matt Brill
Head of NA Investment Grade
+1 404 439 4829
matthew.brill@invesco.com

Todd Schomberg
Head of Investment Grade Portfolio Management
+1 404 439 3455
todd.schomberg@invesco.com

New York

Turgut Kisinbay
Chief US Economist
+1 917 574 4165
turgut.kisinbay@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

Stanislav Gelfer
Senior Strategist
+44 20 7543 3524
stanislav.gelfer@invesco.com

Henley-on-Thames, UK

Mark McDonnell
European Economist
+44 14 9141 6489
mark.mcdonnell1@invesco.com

Julien Eberhardt
Fund Manager
+44 14 9141 6062
julien.eberhardt@invesco.com

Manuel Terre
Sovereign Analyst and Strategist
+44 14 9141 6591
manuel.terre@invesco.com

Hong Kong

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

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Fixed-income investments are subject to credit risk of the issuer and the effects of changing interest rates. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

Non-investment grade bonds, also called high yield bonds or junk bonds, pay higher yields but also carry more risk and a lower credit rating than an investment grade bond.

The risks of investing in securities of foreign issuers, including emerging market issuers, can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

The performance of an investment concentrated in issuers of a certain region or country is expected to be closely tied to conditions within that region and to be more volatile than more geographically diversified investments.

Important information

This marketing communication is for Professional Clients only in Dubai, Jersey, Guernsey, Isle of Man, Ireland, Continental Europe (as defined below) and the UK; for Qualified Clients/Sophisticated Investors in Israel; for Institutional Investors only in the United States, for Sophisticated or Professional Investors in Australia; in New Zealand for wholesale investors (as defined in the Financial Markets Conduct Act); for Professional Investors in Hong Kong; for Qualified Institutional Investors in Japan; in Taiwan for Qualified Institutions/Sophisticated Investors; in Singapore for Institutional/Accredited Investors; for Qualified Institutional Investors and/or certain specific institutional investors in Thailand; for qualified professional investors in Korea; for Institutional Investors and Advisors in Canada. It is not intended for and should not be distributed to, or relied upon by, the public or retail investors. Please do not redistribute this document.

For the distribution of this document, Continental Europe is defined as **Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Liechtenstein, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden** and **Switzerland**. This is marketing material and not financial advice. It is not intended as a recommendation to buy or sell any particular asset class, security or strategy. Regulatory requirements that require impartiality of investment/ investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication.

This overview contains general information only and does not take into account individual objectives, taxation position or financial needs. Nor does this constitute a recommendation of the suitability of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions. It is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any trading strategy to any person in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it would be unlawful to market such an offer or solicitation. It does not form part of any prospectus. While great care has been taken to ensure that the information contained herein is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon.

The opinions expressed are that of Invesco Fixed Income and may differ from the opinions of other Invesco investment professionals. Opinions are based upon current market conditions, and are subject to change without notice. As with all investments, there are associated inherent risks. Please obtain and review all financial material carefully before investing. Asset management services are provided by Invesco in accordance with appropriate local legislation and regulations.

This material may contain statements that are not purely historical in nature but are "forward-looking statements." These include, among other things, projections, forecasts, estimates of income, yield or return or future performance targets. These forward-looking statements are based upon certain assumptions, some of which are described herein. Actual events are difficult to predict and may substantially differ from those assumed. All forward-looking statements included herein are based on information available on the date hereof and Invesco assumes no duty to update any forward-looking statement. Accordingly, there can be no assurance that estimated returns or projections can be realized, that forward-looking statements will materialize or that actual returns or results will not be materially lower than those presented.

By accepting this document, you consent to communicate with us in English, unless you inform us otherwise.

All information is sourced from Invesco, unless otherwise stated.

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

Restrictions on distribution

Australia

This document has been prepared only for those persons to whom Invesco has provided it. It should not be relied upon by anyone else. Information contained in this document may not have been prepared or tailored for an Australian audience and does not constitute an offer of a financial product in Australia. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco.

The information in this document has been prepared without taking into account any investor's investment objectives, financial situation or particular needs. Before acting on the information the investor should consider its appropriateness having regard to their investment objectives, financial situation and needs.

You should note that this information:

- may contain references to dollar amounts which are not Australian dollars;
- may contain financial information which is not prepared in accordance with Australian law or practices;
- may not address risks associated with investment in foreign currency denominated investments; and does not address Australian tax issues
- Issued in **Australia** by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia which holds an Australian Financial Services License number 239916.

Canada

In Canada this document is restricted to Institutional Investors and Advisors, is for educational purposes only, does not constitute investment, tax or legal advice and should not be relied on as such. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment making decision. As with all investments there are associated inherent risks. Please obtain and review all financial material carefully before investing. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed.

- Issued in **Canada** by Invesco Canada Ltd., 130 King Street West, Suite 1900, Toronto, Ontario M5X 1E3

Further information is available using the contact details shown:

- Issued in **Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, the Netherlands, Spain, Sweden, Luxembourg, Norway** and **Portugal** by Invesco Management S.A., President Building, 37A Avenue JF Kennedy, L-1855 Luxembourg, regulated by the Commission de Surveillance du Secteur Financier, Luxembourg.
- Issued in **Switzerland** and **Liechtenstein** by Invesco Asset Management (Schweiz) AG, Talacker 34, 8001 Zurich, Switzerland.
- Issued in the **Isle of Man, Ireland, Jersey, Guernsey, Israel** and the **United Kingdom** by Invesco Asset Management Limited which is authorised and regulated by the Financial Conduct Authority. Invesco Asset Management Ltd, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, RG9 1HH, UK.
- Issued in **Dubai** by Invesco Asset Management Limited. Index Tower Level 6 -Unit 616, P.O. Box 506599, Al Mustaqbal Street, DIFC, Dubai, United Arab Emirates. Regulated by the Dubai Financial Services Authority.

Israel

- This document may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent. Nothing in this document should be considered investment advice or investment marketing as defined in the Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 1995 ("the Investment Advice Law"). Neither Invesco Ltd. nor its subsidiaries are licensed under the Investment Advice Law, nor does it carry the insurance as required of a licensee thereunder.

Hong Kong

- Issued in **Hong Kong** by Invesco Hong Kong Limited景順投資管理有限公司, 45/F, Jardine House, 1 Connaught Place, Central, Hong Kong.

Japan

- Issued by Invesco Asset Management (Japan) Limited, Roppongi Hills Mori Tower 14F, 6-10-1 Roppongi, Minato-ku, Tokyo 106-6114; Registration Number: The Director-General of Kanto Local Finance Bureau (*Kin-sho*) 306; Member of the Investment Management Association of Japan and the Japan Securities Dealers Association.

New Zealand

- This document is issued only to wholesale investors (as defined in the Financial Markets Conduct Act) in New Zealand to whom disclosure is not required under Part 3 of the Financial Markets Conduct Act. This document has been prepared only for those persons to whom it has been provided by Invesco. It should not be relied upon by anyone else and must not be distributed to members of the public in New Zealand. Information contained in this document may not have been prepared or tailored for a New Zealand audience. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco.
- This document does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for, an opinion or guidance on Interests to members of the public in New Zealand. Any requests for information from persons who are members of the public in New Zealand will not be accepted.
- Issued in **New Zealand** by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia, which holds an Australian Financial Services Licence number 239916.

Singapore

- Issued in **Singapore** by Invesco Asset Management Singapore Ltd, 9 Raffles Place, #18-01 Republic Plaza, Singapore 048619.

Taiwan

- Issued in **Taiwan** by Invesco Taiwan Limited, 22F, No.1, Songzhi Road, Taipei 11047, Taiwan (0800-045-066). Invesco Taiwan Limited is operated and managed independently.

United States

- Issued in the **United States** by Invesco Advisers, Inc., 1331 Spring Street, N.W., Suite 2500, Atlanta, Georgia, 30309.