

November 2025

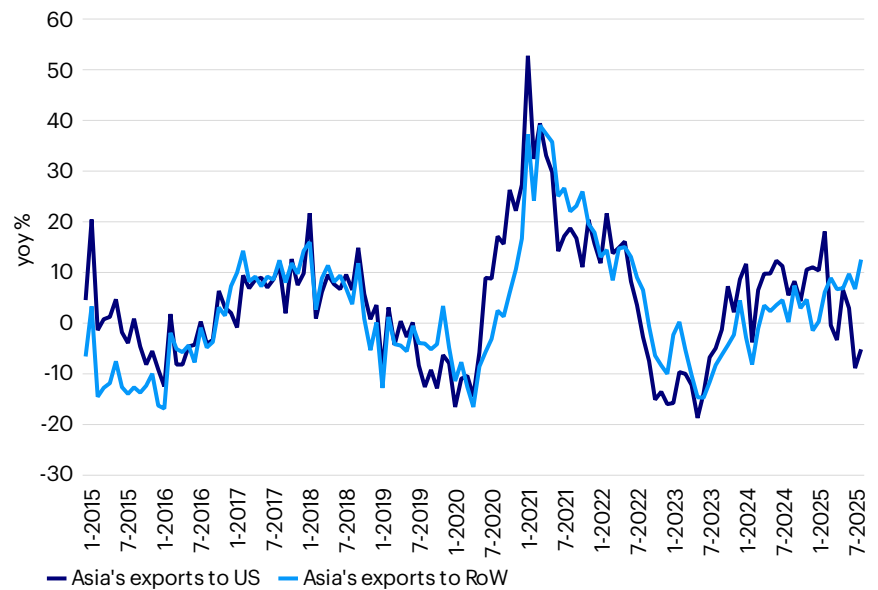


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## Shifting growth drivers in Asia's emerging markets

One of the major factors that drove market movements year-to-date in 2025 has undoubtedly been geopolitics and tariff-related risks. These risks have also shaped the economic fundamentals and outlook for Asia emerging market economies. While we have observed robust economic growth in the region so far, front-loading of exports has contributed significantly to this performance. However, we do not expect the external sector to maintain its strong momentum in 2026, given both fading global demand and high comparison base.

**Figure 1: Exports have been slowing in Asia emerging markets, particularly exports to the US**



Source: Nomura Global Economics, Invesco. Data as of September 30, 2025.

## Divergent policy responses across Asia

As external force weakens, Asian economies are responding in different ways:

- **Fiscal expansion:** Countries like Indonesia and Thailand are increasing handouts to low-income households to boost domestic consumption.
- **Tax reforms:** India has implemented new Goods and Services Tax reforms to stimulate household consumption.
- **China's focus:** China's fiscal stance remains cautious; the government continues to prioritize industrial transformation and moving up the value chain rather than broad-based stimulus.

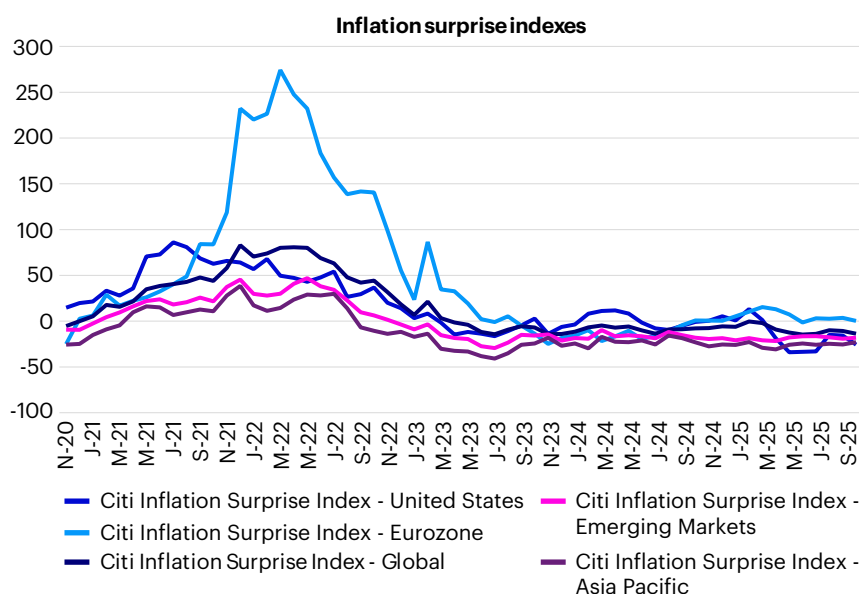
Divergent policy approaches and uncertain external conditions make it difficult to establish a definitive outlook for Asia emerging market bonds in 2026.

November 2025

## Inflation trends and monetary policy outlook

We continue to see inflation data across Asia surprising on the downside, giving local central banks greater room to further ease monetary policies. Unlike many other regions, Asia's emerging markets did not experience the post-COVID inflation surge seen globally. With higher tariff rates imposed on these economies, domestic inflationary pressures are likely to remain subdued. In contrast to fiscal policy divergence, this low-inflation environment and the central bank easing bias apply broadly across Asia's emerging markets.

**Figure 2: Inflation surprise index for Asia Pacific has remained consistently low**



Source: Bloomberg, Invesco. Data as of October 2025.

Note: Citigroup Inflation Surprise Index represents the sum of the difference between official inflation data and forecasts. With a sum over 0, its inflation data are higher than market expectations and vice versa.

## Hard currency sovereign and quasi-sovereign bonds: Limited upside, selective risks

For hard currency Asia emerging market sovereign and quasi-sovereign bonds, fundamentals remain strong among countries with lower fiscal impulse. The asset class has done well in 2025 year-to-date, so we do not expect significant further upside compared to other emerging market hard currency sovereign bonds.

However, Asian countries have demonstrated greater resiliency during market selloff triggered by external shocks. As long as domestic fundamentals stay robust, we do not anticipate significant widening of sovereign and quasi-sovereign bond spreads within these Asian markets. Conversely, countries pursuing aggressive fiscal expansion plans may face reduced investor exposure, given the current tight spread levels.

## Opportunities and risks of local currency bond markets

For Asia's local currency bond markets, we hold a similar view that we favor countries with prudent fiscal policies. As monetary policies are likely to ease, we see strong potential for lower government bond yields across Asia.

However, a negative supply shock from aggressive fiscal expansion could unsettle market participants, prompting a shift toward other emerging markets offering more attractive carry and capital gain potentials.

Another key factor influencing local currency bond performance is foreign exchange dynamics. The USD has weakened since March 2025, driven by tariffs and concerns over slower US growth. There is a real possibility that the Fed delivers more rate cuts than currently expected, which would further pressure the dollar.

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# 2026 Investment Outlook – Asia Fixed Income: Emerging Markets

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Among the high-yielding Asia local currency government bonds, India stands out with government continuing to support economic growth without excessive public spending. Combined with potential rate cuts, low inflation and possibly lower tariff rates, this is likely to create compelling investment opportunities.

Our country-specific views will evolve as fiscal policies shift in reaction to economic realities. For now, current market conditions prevent us from making a generalized outlook for Asia's emerging markets.

## **Positioning for opportunities amid uncertainty**

Asia's emerging markets enter 2026 with a mix of opportunities and challenges. While geopolitical risks and fading external demand weigh on growth prospects, low inflation and accommodative monetary policies provide a supportive backdrop for local currency bonds. Hard currency sovereign and quasi-sovereign bonds remain fundamentally sound, though upside appears limited given tight spreads. Divergent fiscal strategies across countries will be a key differentiator, requiring selective positioning and active monitoring. In this environment, investors should focus on countries with prudent fiscal management and structural resilience, as these are well-positioned to navigate uncertainty and deliver sustainable returns.

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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.

When investing in less developed countries, you should be prepared to accept significantly large fluctuations in value.

Investment in certain securities listed in China can involve significant regulatory constraints that may affect liquidity and/or investment performance.

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