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Takeaways from 2025 IMF Annual Meetings: Emerging market momentum, developed market fatigue

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The Emerging Markets Debt team recently returned from the 2025 IMF Annual meetings, meeting with finance and central bank officials, and other market participants. We have been attending and reporting on these meetings for three decades, so some of our observations are made with that context.

Key takeaways:

- AI-driven capex is extending US growth, tempering stagflation fears but keeping inflation risks alive.
- Emerging markets show structural strength and policy discipline as developed markets face debt strains.
- The meeting was typified by more pragmatic, data-based dominated discussions, especially around US policy and trade dynamics.

As usual the largest economy in the world weighed on discussions. At the April meeting, the consensus outlook was that the US economy was headed to recession. That has morphed into stagflation concerns, but the concern at the most recent meetings is that the recovery is looking K-shaped.

A K-shaped economy has two diverging paths. The fear is that one part of the economy, AI, is thriving, while other industries and sectors grapple with low, or falling growth. AI capex is having a large and durable impact on US growth ranging between 0.1% and 0.5%. Ongoing fiscal expansion, easy financial conditions, combined with an AI capex cycle seems to have won the day over the consensus concern at the April IMF meetings that a downturn was nigh.

The US labour market was also a key focus at the meetings. Our view is that it is still indeterminate because the reduction in labour supply due to migration policy might have been non-inflationary because of a cyclical decline in labour demand. Remember this cyclical demand decline was the consensus view in April. This set-up led many participants to fall back on the argument “yet” for inflation rises and growth weakness, so “stagflation” still looms.

There was also an undeniable hint of optimism for growth for coming months or quarters. We think that for many, the consensus on an economic downturn was an initial rejection of the Trump Administration’s economic policy and this had waned at these October meetings.

In emerging markets there has been a notable shift in politics moving to the right (i.e., market-friendly). This is most evident in Latin America, with elections upcoming in Chile, Brazil, Colombia, and Peru. Key to us are also elections in the smaller economies of Bolivia, Guyana, Honduras, and Costa Rica.

There is also Argentina, which in our opinion has a different paradigm. Argentina, we think is still cornered by its unorthodoxy on the exchange rate and its legacy clientelist political structures. There is no doubt that Argentina is capturing the “right wing” limelight, but we think it is more complicated, and we discuss this further below.

Ecuador and El Salvador are better representatives of the “shift to the right” phenomenon. Essentially, as bond investors we would like, we could get, as these countries are embarking on IMF programmes that entail structural reform and fiscal discipline. This is well underway in Ecuador, with subsidy reforms happening despite the political obstacles. This is under an expanded IMF programme. And it is about to happen in El Salvador too, we think.

It is important to note that we are not saying Chile is going to have an IMF programme. We are only describing the type of economic orthodoxy that we think the market would welcome, after political changes.

The politics underneath this phenomenon are undeniable, the "right" is often gifted with rising concerns over crime and safety, among other issues, and this has been a political windfall.

Looming over all of these is the Trump administration's many agendas which touch almost every country in the region. The security agenda is the shiniest one right now, and US strategic considerations are evident in the Ecuador IMF programme, and many others. We were reminded of this during the mid-meetings with announcements that CIA activities have been approved in Venezuela.

In these meetings the Trump Administration's policies were analysed through a less ideological lens. One of the things that has always concerned us at previous meetings is that in our profession you should not be able to detect ideology ever. Yet, these meetings, which have a heavy European representation, have in the past exhibited ideological preferences. It seems to us, no more. Trump administration representatives were now normal features on panels. It was much more the way it used to be, analysis of policies and outcomes.

Tariffs were lamented, as they should be, in economic terms. We remain concerned about inflation coming on the margin, because tariffs should be inflationary with lags. We think many are throwing in the towel on inflation concerns because they are trapped by their initial consensus "sky is falling" view, not because they can extrapolate from the past two quarters of benign inflation. Nonetheless, there was acknowledgement of a growing bi-partisan consensus on trade imbalances in the US. We also noticed that market participants had a blasé attitude on the issue of Fed independence, which we think is important.

Europe looks set for a cyclical economic upturn based on German defence spending, but it seems to have missed its opportunity and everything else is negative. It is worth considering the last IMF meeting in April. The talk was all about investors' search for a reserve currency to benefit from declining relative interest in holding US dollar assets. This was Europe and the euro's chance. We still have an ECB with tight interest rate policy on the one hand (which has led to an overvalued euro), and stimulative policy on its asset side, capping sovereign bond yields.

Europe lags on AI, and its digital currency policy, in our view, seems to be a capital control structure. Therefore, on two hot vectors Europe is nowhere or going backwards. The politics underneath are fragile and well known. But they are not being addressed. Analysis and forecasting are meaningless in such a context. Denial seems to surround Europe in the eyes of many meeting participants. This, when meeting participants' email inboxes were filled with research reports updating intra-sovereign euro-zone spreads. France's, sovereign rating was downgraded by S&P on the last Friday of the meetings.

China had a "glow-up". For too long, we think China's policymaking at IMF meetings was underappreciated. To be fair to that cynicism, other than for a few years, China did not have a presence at IMF. This could be because they do not need the offshore financing. China's officials have presided over what is arguably the greatest economic success over the past 50 years. That is now being recognised, and much of it has to do with China's navigation of 2025. Many thought the renminbi would depreciate due to tariffs. It did the opposite. While we remain frustrated that this renminbi appreciation was not central to every emerging market discussion given emerging markets trade more with China than with US, we saw sparks of recognition. For example, Kenya's swap of US dollar-denominated debt for renminbi-denominated debt and India's first use of renminbi in oil purchases both occurred during the meetings.

Not that you even needed those reminders after China, India, Saudi, UAE, Brazil and others agreed to trade in each other's currencies with no media attention for years. We have said, for some time that this is how money demand (demand for renminbi in this case) expansion begins. During this year's IMF meeting, there was no criticism of China for "over-capacity" due to "state capitalism".

China's currency stability, the continued internationalisation of its currency, acknowledged centrality to the global economy (rare earths were a theme) all conspired to give China a quiet "glow-up". We would like to think the real reason is because they have a stable currency with a central bank that has anchored inflation, but it could be any of the others.

Developed markets and emerging market's credit cycles are diverging. The financial media have covered some evidence of credit stress in the US. This was part of discussions which broke no new ground. It was noted that balance sheets were strong, but spreads were at record tights. Since the "news" was focused on corporate situations (i.e., not sovereign), our bias remains that the corporate bond market does not contain a lot of information right now. This is due to its illiquidity combined with all-time tight spreads, and decades of increased allocations to credit.

Credit selling off from these conditions would not be unsurprising. The issue is if US dollar interest rates are rising, you could get some problematic refinancings at unsustainable rates. But the steepener has been the biggest consensus all year. And fiscal outturns in the US have outperformed, part of the selloff in 30s was due to fiscal worries and tariff inflation which has not materialised yet, markets have also considered the new Fed next year that will likely be focused on getting nominal rates down across the curve. So, we do not see a rising rate scenario in the next quarter or so, but further out is hazy, at best.

Recalling France's, sovereign rating was downgrade by S&P on the last day of the meeting. This is something to be alert to. We would note that swap spreads, which reflect bank liquidity more than credit risk per se, have been rising. If included, these spreads were sending signals prior to the headlines that got generated only when there were some specific credit spreads that gapped in supposed information-rich sectors like auto lending. This earlier rise in swap spreads reflects more profound risks at the sovereign level, in developed markets, as we and the IMF have been warning in its Global Financial Stability Report (GFSR).

The gist of the IMF's must-read GFSR was that there are risks in developed markets, at the sovereign level, and these map to the financial system. We believe the IMF is spot on and is being diplomatic. Keep in mind, the IMF's biggest shareholder is the US, followed by European nations. The only good news is that they gave a similar warning in its April GFSR which we analysed in detail in our "Takeaways" then.

The IMF notes the rise in UK Gilt yields, the Silicon Valley Bank episode, and how these map to derivatives markets like swap spreads (they say they map to the spread, but we think it is more descriptive to say that they map to derivative markets themselves).

This new GFSR warns that 0 percent haircuts on US Treasuries in repo financing have amplified leverage risks by encouraging huge ("large-scale") basis trades (arbitraging bond futures and cash bonds). Hedge funds are creating large, levered treasury positions due to the cheap funding in short-term repo markets. Any change in leverage would be a big deal. This is not a good context. But this also reflects attempts by policymakers to influence the yield curve.

The gist of the IMF's must read WEO (World Economic Outlook) was of resilience in emerging markets and worries over Europe. Emerging markets are structurally more robust than they were a decade ago, while developed markets face policy fatigue and "persistent downside risks from protectionism and high debt levels". Echoing the GFSR, the WEO states that "fiscal vulnerabilities, potential financial market corrections, and erosion of institutions could threaten stability". The growth forecasts are 1.5% for the developed markets (or "Advanced Economies"), and low 4s for the emerging markets ("Developing Economies"). The report highlights emerging market central bank independence that has anchored inflation. It also underlined Europe's questionable productivity prospects.

AI was featured prominently in meetings. Much of the "hype" was focused where it should be, on the actual Capex, not on the productivity utopia that might obtain. Many at the meetings had no clue whether it would "work out", how many jobs would be "destroyed", or how many jobs would be created. We sit in the no clue camp. The main point is that those discussions were taken with the appropriate grain of salt and were not the focus of attention. What was the focus of attention was the amount of AI capex which is adding between 0.1% and 0.5% to US growth in its cycle.

Foreign direct investment (FDI) into the US increased by 100% in the first half of 2025 while US investment overseas declined by 14%. So, the US is being seen as a leader and winner. The jury is out if this is correct, but it is the perception, and capex lends support to this idea. The depth and durability of the investment flow was also noticed, with sovereign support for AI development coming up in every single meeting. Wherever this ends up, the runway seems long. It's "strategic". That's the right framing, in our view, there should be hype about the capex cycle, the rest is speculative.

The presence of developed market problems was yet again juxtaposed against the absence of the problems in emerging markets. The IMF should be celebrating emerging markets' successes. Many were on IMF programmes, or learned the lessons on their own, but the IMF was a big part of their success either through funding programmes, or intellectually. There was much talk/hope/experience of inflows into emerging markets. There were perhaps too many "frontier" experts for our "exuberance"-meters. Argentina and Venezuela experienced overflow rooms. But there was a sense that something that had been going on for a while, emerging markets being structurally stronger than developed markets, was cemented and perhaps looking at a new stage higher.

Sentiment was bearish on US dollar and bullish on everything emerging markets. We agree with the bullish emerging markets local-currency conclusion and have been positioned that way for years, mostly via Asia. But it is worthwhile to remember, that sentiment shifted reluctantly, dragged into this bullish EMFX view when newspapers started writing "US dollar something-or-other" stories. Could it be overdone? A month or so of US dollar strength could be just what market positioning/psychology needs, a test. We should emphasise that everything we do is country-by-country, bond-by-bond.

Observations on key emerging markets

Mexico is among the success stories. It is a key beneficiary of the trade war (a combination of President Sheinbaum's prudent approach and the USMCA "safety net") and ongoing fiscal consolidation, which allows the central bank to continue its gradual easing.

South Africa's progress on fiscal policy and state-owned enterprises reform was recognised. The country did not generate too many headlines during the IMF week, but its monetary and exchange rate policies are beyond reproach. The country's terms of trade are benefiting from gold's dynamics, and the bi-partisan support in the US for the African Growth and Opportunity Act (AGOA) framework is a boon for South Africa's geopolitical backdrop. It also has greater exposure to China, and it is slowly strengthening currency.

Chile needs to use this time to build resilience, including external buffers. Trade fragmentation remains a major risk, but most of Chile's exports are exempt from tariffs, which reduces direct risks. The budget might require some corrective action, but the medium-term fiscal outlook remains benign as both right-leaning presidential candidates are shown to have better chances in the second round, according to surveys. A problem is the need for external buffers which can constrain upside to Chilean peso. The counter to this is that local pension funds have low exposure to their own local market.

Brazil is examining initial conditions going into an important election and the market is relaxed. Brazil has amazing external accounts but looming fiscal problems due to a high level of government debt. Upcoming elections will determine the fiscal outcomes, but in the meantime a hawkish central bank is anchoring the market. And this market is calm despite a boost to market-unfriendly President Lula's popularity after a nationalist standoff with US President Trump.

Argentina's economic team kept trying to convince a sceptical market that it did have the support of US Treasury. The actions of US Treasury (buying Argentine peso, signing a swap agreement and funding bond tender) continue to match the speech of Argentina's economic team. The problem for the market is that it remains overweight Argentine assets, and it is terrified that Milei will suffer a defeat in the upcoming midterms and afterwards lose the support of US Treasury. Once the midterm elections are in the rearview mirror and the uncertainty is gone, US Treasury support should become an overwhelming support for Argentine bonds.

A Venezuelan regime change never seemed this close. The Trump administration is taking direct military action to pressure the Maduro government, and the Machado-led opposition is talking to investors about its detailed plans to govern once they are in power, including fully privatising the oil sector and engaging with bondholders. It all has the feeling of being imminent and inevitable. But even if Maduro does not survive this time, a Venezuelan transition may not be so simple with other powerful Chavista figures who can make it difficult for an opposition government to fully control Venezuela's sovereign assets. The difference with Argentina is that Venezuelan bonds are under-owned and potentially undervalued and so will continue to move higher on positive headlines.

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