

# IMF 2025 Spring takeaways: The era of Emerging Markets Exceptionalism



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At the Spring IMF meetings, our Emerging Market Debt team saw stronger investor sentiment as Emerging markets benefit from dollar weakness, stable inflation, and growing confidence in emerging market foreign exchange.

*The team just returned from the IMF Spring meetings, meeting with finance, central bank, and other officials from around the world, along with other market participants.*

## Key insights

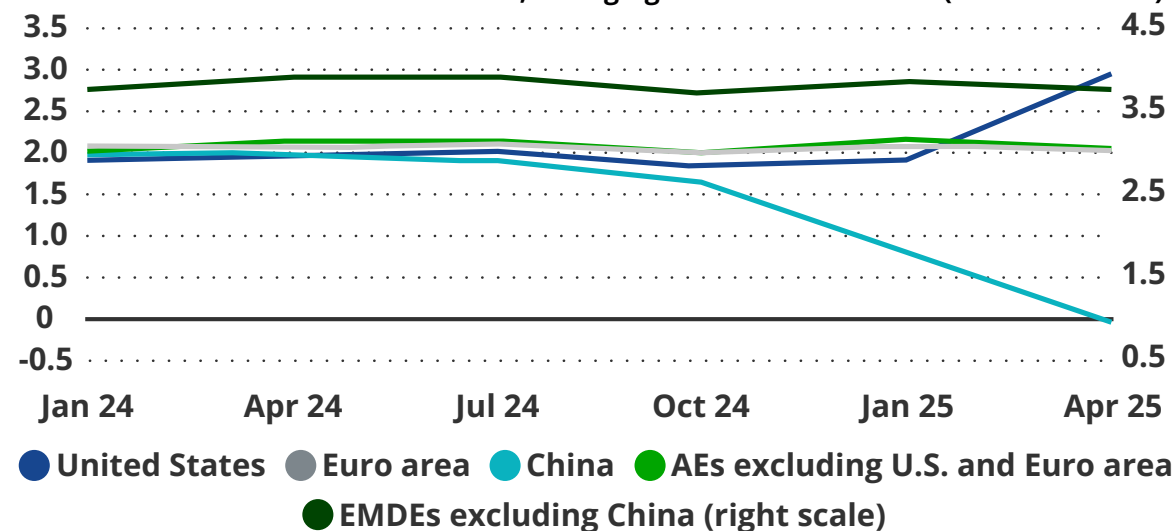
- Dollar depreciation – the US is generating uncertainty, economic weakness, *and* inflation. Emerging market inflation, on the other hand, remains relatively stable in the majority of emerging market (and deflationary in China). The obvious conclusion arrived at during meetings was that this was very positive for the major currencies and for emerging market foreign exchange, against the USD.
- USD and Treasuries' reserve status is no longer a taboo topic. This is a completely different topic than USD depreciation, we must emphasise. Up until these Spring 2025 meetings, this topic of reserve status was fringe or taboo. We've been **publishing on the topic** for over a decade, using the orthodox lens of "fiscal dominance". Now that the topic is being discussed, we see it as over-hyped. Our view remains that the USD reserve status will remain and that the proper framing is to see the dollar slowly sharing reserve status with other deserving currencies over time.
- International Monetary Fund cannot please any of its stakeholders and is defensive. It is seen as unfair to private creditors, which is correct to us. And it has presided over a massive imbalance between mercantilist China and other economies and the big consumers. The IMF will be forced to change, so keep an eye on this space.
- Any US isolationism is a great opportunity for Europe. Euro is a market winner, representing a great tailwind if greater financial integration is an objective. German fiscal expansion is the great hope. And of course, Euro strength is a tailwind for ECB easing. Will Europe grab this opportunity was the open question.
- "Tariffs" transmit uncertainty which maps to recession risk. That's the big focus and framing. However, the inflationary impact from tariffs is temporary while the ultimate impact is recessionary, so some in the market are trying to see through any inflation risks and to a new Fed chair in May 2026.
- Fed independence was a big topic of conversation. It spiced up the now-acceptable discussion on the dollar's reserve status, obviously. There was a good amount of ideology disguised as economics, pointing to what a long intellectual slog this could be. Sooner or later, the Fed will become dovish.
- The era of Emerging Market Exceptionalism. Overall, we feel even stronger following IMF meetings that many emerging markets could experience upward pressure on their currencies. This would be due to the dollar's selloff against the major currencies, typically, but there is now obviously "pressure" from the Trump administration to keep emerging market currencies stable or arguably stronger as part of "trade" negotiations. A country that devalues its currency to compensate for these negotiations increases risks dramatically, and we are struck that so few meeting participants see a scenario of CNY re-valuation (CNY stronger). This is disinflationary for many emerging markets. Emerging markets generally have higher real rates, making their currencies both attractive and giving their duration upside potentially even before the Fed inaugurates a new cutting cycle.

## Dollar depreciation – US is generating uncertainty, weakness, *and* inflation

The IMF framed its outlook through the lens of "uncertainty" due to US trade policy. In fact, their April 2025 World Economic Outlook (WEO) generated a reference forecast, not a forecast, to reflect the importance of and uncertainty around "tariff" (in quotation marks because the discussions are about non-tariff barriers, mostly) policy and negotiations. This reference forecast followed the 90-day tariff delay and assumes a 10% global tariff, among other assumptions. Global growth was downgraded by 0.9% compared to the previous forecast, but not tipping the US or world into recession.

The inflation outlook was more interesting, with developed market (“Advanced Economies”, or AEs) seeing rising inflation, with the US and UK standing out in terms of magnitude – revised up by 0.7% and 1.0%, respectively. Emerging market (“Emerging and Developing Economies” or EMDEs) saw a mixed inflation outlook, leaving developed markets with the stagflation risks. This observation is shown in the inflation forecast history produced below. We highlight this because one of our themes has been the maturity and orthodoxy of many emerging markets’ economic policy and its low inflationary implications. Let’s get to the obvious and key asset-price conclusion – if developed market inflation is worsening relative to emerging market, that is all else being equal bullish for emerging market currencies. We’ve noted in research notes that if you use manufacturing inflation, CNY is substantially *undervalued*, for example. This is a key element for emerging market foreign exchange, of the dollar depreciation argument.

**Exhibit 1 – IMF sees inflation risk in US, emerging market not so much (China not at all)**



Source: IMF April, 2025 WEO

Most importantly, meeting participants were introduced to the idea that emerging market currencies can be beneficiaries of a “USD selloff”. Until the meetings, most of the foreign exchange winners were the majors such as EUR, JPY, and CHF, but began to broaden to emerging market foreign exchange. This is the precise thing we mean when we say participants “woke up”. Whether the catalyst to this realisation is relative inflation rates, relative balance sheets, or relative narratives (the USD and Treasury reserve status which we discuss next), the idea that emerging market currencies could be winners was a key dawning realization for IMF meeting participants, in our view.

## USD and Treasuries’ reserve status no longer a taboo topic

The reserve status of dollar’s and Treasuries’ are a completely different topic than depreciation, we emphasise. We should set the scene before getting into this discussion, especially since we feel like we’ve been forcing this discussion for over a decade and now see it as over-done and over-simplified. Up until these Spring 2025 meetings, these topics were fringe or taboo. (We [published](#), nonetheless, using the orthodox “fiscal dominance” frame for developed market.) Now, these topics are no longer taboo, and that’s the main news to us. To be fair to the taboo, every participant has benefited from “globalisation” and has high trust in the neo-liberal/neo-conservative “consensus” for good reasons, so this topic seemed to face some instinctive defensiveness. Anyway, that taboo is gone now, and that’s our point. Not forgetting, most importantly, that reserve status is a separate dynamic from simple dollar depreciation – they should not be mixed up.

And, since we’ve been publishing on this topic of reserve status for over a decade, we should present our summary conclusion for the record. Our view remains that USD reserve status will be increasingly shared with other countries over many years, and that this process has been in-train for over a decade, but that there will be no “headline” day. The dollar will remain the primary reserve currency, and the “all-of-a-sudden” loss of reserve status scenario has extremely low odds in the foreseeable future.

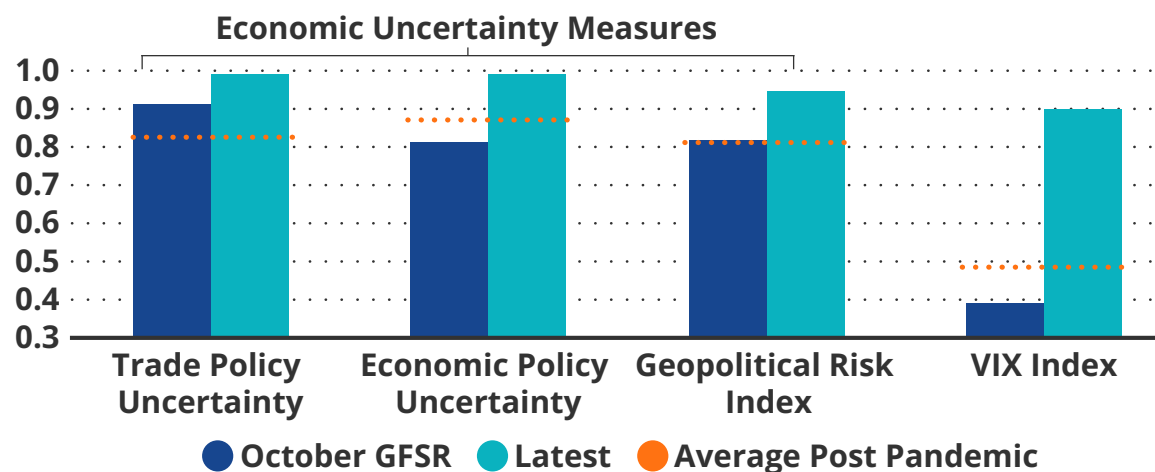
One thing missing from IMF discussions was an accurate historical timeline of the challenges to the dollar’s reserve status. It was almost as if questioning reserve status appeared out of nowhere, simply coinciding with the second Trump administration’s “tariff” strategy. The most important detail skipped over in IMF meetings on this newly discussable topic is that this story really started with the Global Financial Crisis, quantitative easing and other monetary and fiscal responses. The Russian central bank sanctions of Treasuries reserves accelerated this process of searching for alternative reserve currencies. This is what got central banks to acutely question their Treasury holdings. Russia was forced into a credit event by losing access to its reserves and lost repayment capacity as a result.

China is an obviously vulnerable sovereign from this angle, being a high-quality credit in USD with over \$3tn in dollar assets, but now with its key strength at risk due to US sanctions policy. The recent rise in gold prices reflects the attractiveness of gold as a reserve currency for the Chinese and other central banks. Central bank buying of gold reserves started post Global Financial Crisis and accelerated substantially post Russia sanctions, showing policies undermining the US dollar have been in place for a long time. Quantitative easing and other policies in the Global Financial Crisis started this discussion in many ways – Treasuries and the dollar didn't all-of-a-sudden just start having these risks.

Let's move on to what the IMF said about this topic. The fund's must-read [Global Financial Stability Report](#) (GFSR) also (along with the World Economic Outlook) framed the outlook through the lens of uncertainty. The first exhibit in the GFSR below shows the IMF's metrics of "uncertainty". They cite three channels. First, valuations of risky assets may simply be elevated and thus vulnerable to correction. US equities came away poorly from these meetings overall, according to our sentiment checks before and after. Second, risk to financial institutions particularly with greater leverage.

*Third, and most eye-catching to us, they say "turbulence could descend upon sovereign bond markets, especially where government debt levels are high".* They are referring to the "United Arab Emirates" or developed market economies. In the same paragraph, they say "popular leveraged cash-futures basis trades in core sovereign bond markets could unwind". Right out of recent weeks' headlines! This is the risk we've been framing as coming from "fiscal dominance" (debt so high that monetary policy is subsumed) in developed market and has been a core theme of ours for over a decade, so its popularisation at recent meetings is important for asset prices. It is very much worth taking note of the IMF's focus on this risk.

## Exhibit 2 – IMF GFSR notes high uncertainty (From US tariff policy)



Sources: Bloomberg Finance L.P.; Baker, Bloom, and Davis 2016; Caldara and Iacoviello 2022; and IMF staff calculations.

Note: "Economic policy uncertainty" and "trade policy uncertainty" are the indices of Baker, Bloom, and Davis (2016); 'geopolitical risk' is the index of Caldara and Iacoviello (2022). Series are in percentiles since 1997 based on monthly data; "Average post pandemic" is the average percentile since 2022. Trade policy uncertainty, economic policy uncertainty, and Geopolitical Risk Index are z-scores since inception. Economic uncertainty measures are text based. VIX = Chicago Board Options Exchange Volatility Index.

So this discussion is now mainstream, right or wrong, and however simplified or exaggerated. The key point is that as a result the GFSR and the market are now honing in on the US (and global) financial system's vulnerabilities. Remember the warning in the GFSR on highly-indebted developed markets backed by leveraged financial systems? Well, there were concerns over exactly this in markets during the meetings. The worrying signal came instead from cross-currency swap spreads, in which Euro-based investors who hedge their Treasuries into Euros were not funding/buying Treasuries at spreads at which they normally would buy. *That* could be viewed as a sign of offshore reluctance to lend to the US and would fit the GFSR narrative of high leverage in the US, making its financial system riskier for offshore investors.

The GFSR's focus on highly-indebted developed markets' financial vulnerabilities encourages us to spell some things out, at least in high-level terms, as many ignore key dynamics of derivative markets. First, cross currency swap spreads showed offshore investors unwilling to lend into the US/buy Treasuries. That was a reasonable narrative, though the precise causality is debatable (we don't know for sure it represents a downgrade in Treasuries' reserve status, but it would be consistent with that if sustained).

Second, many derivative markets are far larger than the securities they reference, and in many cases are the driver of the actual security price, not vice versa as many assume. Derivatives often cause the spot or cash price, not vice versa. Most policy-makers have never traded a bond in their lives, keep in mind, something we see in evidence regularly.

Third, these financial institutions and their derivatives are *exactly* what was guaranteed in the Global Financial Crisis, for *exactly* the reason that it could unhinge pricing of US Treasuries and currencies, among other asset prices.

Fourth, other derivatives such as non-deliverable forwards and interest rate swaps are part of the asset/liability mix of these financial institutions and were also supported by the Fed and US Treasury in the Global Financial Crisis, so all derivatives and