yieldreport Weekly

Your Income Advantage

21st - 25th April 2025

Overview of the US Market

After a sharp selloff on Monday, US stocks rallied strongly for the remainder of the week, led by tech stocks, as hopes for a de-escalation in the US-China trade war lifted investor sentiment. The surge in mega caps sent the S&P 500 above 5,500, with the gauge notching its longest advance since January. Tesla Inc. jumped 9.8% while Alphabet Inc. climbed on solid results. But by Friday, equities briefly lost steam as Trump suggested he wouldn't drop levies on China without "something substantial" in return. For the week, the **S&P 500** was up 7.1%, the **Nasdaq 100** up 6.1%%, and the **Dow Jones** up 5.1%.

Optimism also stemmed from Treasury Secretary Bessent's comments at a JPMorgan-hosted summit on Tuesday, where he said the current tariff standoff is "unsustainable" and signalled that negotiations with China would move toward resolution. Although Bessent also acknowledged that formal talks had not yet begun and warned negotiations would likely be a "slog."

Meanwhile, fresh concerns lingered over President Trump's attacks on Fed Chair Jerome Powell, which contributed to recent market volatility. However, by Wednesday Trump's shift in tone regarding Powell helped ease concerns over the central bank's independence.

Overall, while fears of a 2008- or 2020-style crisis are fading, the road back to record highs won't be easy. Markets are showing resilience, but still face the same persistent challenges, including tariff uncertainty and signs of an economic slowdown.

Inclined to sit-out the turn-around trade? You wouldn't be alone. The head of research at value-investing firm Boston Partners found himself checking and re-checking economic data that he fears show early signs of the damage already caused by Donald Trump's trade war. **Signals like dwindling Los Angeles shipping volumes, declining tourism-related travel and shrinking credit-card receipts in key consumer sectors.**

Similarly, at Apollo Global Management Inc., chief economist Torsten Slok flagged a "collapsing" number of container vessels departing China for the United States, writing in a note that consumers will soon see **higher inflation and significant layoffs in trucking, logistics and retail jobs**. At JPMorgan Chase & Co., chief US economist Michael Feroli is looking at high-frequency data already showing **a drop in international visitors**, which he warns would put pressure on economic growth.

Related to the above, strategists from both JP Morgan and Morgan Stanley described this week's trade in both equities and bonds as **reflecting an investor complacency**. Both houses have a **60% recession projection**, and on that basis any turn-around could be a fool's rally. Irrespective of specific economic forecasts, what we do know is that the off-the-cliff soft data will progressively feed through to the hard data. And we are already seeing early signs of that, some of which were noted above.

More broadly in relation to equities, Bank of America Corp. strategists led by Michael Hartnett warned that the **conditions for sustained gains in US stocks and the dollar are missing**. The greenback is in the midst of a longer-term depreciation while the shift away from US assets has further to go, they noted. The trend would continue until the Federal Reserve starts cutting rates, the US reaches a trade deal with China and consumer spending stays resilient. **Foreign investors have sold $63 billion of US equities since the start of March**, Goldman Sachs Group Inc. strategists estimate, noting that the data from high-frequency fund flows suggest that European investors have been driving the selling, while other regions have continued to buy US stocks.

On the consumer front, US consumer sentiment fell to one of the lowest readings on record and long-term inflation expectations climbed to the highest since 1991 on fears of the economic fallout from tariffs. Consumers anticipated inflation will rise at an annual rate of 4.4% over the next five to 10 years, the University of Michigan data out Friday showed. They expect prices to rise at a 6.5% pace over the next year.

On the Corporate America front, profit margins remain close to record levels, suggesting Corporate America has some room to absorb costs from higher tariffs. However, the track record of S&P 500 companies over the past two decades **suggests their ability to withstand additional levies is fragile**, at least by one measure. Nearly all of the margin growth eked out from corporate sales on the gauge since 2004 has come from the booming technology sector, according to Bloomberg Intelligence. Removing the group, profitability barely rose.

The **latest batch of earnings** showed signs of unease about economic prospects have become evident. American Airlines Group Inc. **withdrew its full-year earnings outlook**, joining a growing number of companies hedging their bets on the broader economy. Southwest Airlines Co.'s chief said **his industry is already in a recession**. PepsiCo Inc. and Procter & Gamble Co. lowered their forecasts. The looming impact of higher costs from the Trump administration's trade policy is making it very difficult for the corporate world to forecast how the year will play out as consumers brace for economic pain.

Overview of the Australian Market

For the week, the **S&P/ASX 200 Index** increased by 1.9% to close at 7,968 on Thursday, reaching a three-week high as Australian shares tracked a strong rebound on Wall Street. Stocks rallied globally after US Treasury Secretary Scott Bessent helped lift sentiment by describing the current tariff standoff as "unsustainable," signalling a possible shift toward de-escalation. Later, President Donald Trump added to the market's optimism by stating he has no plans to remove Federal Reserve Chair Jerome Powell, reducing uncertainty around central bank independence and policy continuity.

On the domestic front, data showed that Australia's private sector activity expanded for a seventh consecutive month in April, fuelled by strong gains in both manufacturing and services output. Mining and energy stocks led the advance on stronger commodity prices, with material gains from BHP Group (3.4%), Fortescue (3.1%), and Woodside Energy (3.8%). However, gold stocks declined as bullion prices pulled back from record highs.

CBA had an impressive 4.2% rally on Tuesday, for reasons few could understand. There was speculation of a large institutional investor. Gold stocks got slammed as the bullion sold off. The sharp sell-off may reflect over-bought conditions and stretched gold equities valuations.

Australia's 10-Year Government Bond Yield

On Tuesday, **Australia's 10-year government bond yield** held around 4.26% as investors weighed risks stemming from President Trump's renewed criticism of the Federal Reserve. On Monday, Trump increased pressure on Fed Chair Powell and suggested that he might be removed, raising concerns about the central bank's independence. This, combined with ongoing uncertainty over US trade policies, added to investor caution.

Meanwhile, traders are increasingly anticipating an interest rate cut by the Reserve Bank of Australia at its May meeting. While a 25 basis-point cut is widely expected, some are pricing in a more aggressive 50 basis-point move amid growing fears of a global slowdown driven by trade tensions. Investors are now awaiting Australia's upcoming PMI data for further insight into the domestic economic outlook.

By Wednesday, **Australia's 10-year government bond yield** rose slightly to 4.25% amid improved sentiment after U.S. Treasury Secretary Scott Bessent expressed optimism about de-escalating trade tensions with China, saying current tariffs are unsustainable. President Donald Trump also said that tariff rates with China, Australia's top trading partner, would come down substantially if Beijing agrees to a trade deal.

Simultaneously, Trump backed down from earlier threats to dismiss Fed Chair Jerome Powell, easing concerns over the U.S. central bank's independence. Meanwhile, on the domestic front, markets still implied the Reserve Bank of Australia would deliver a 25bps rate cut in May, but abandoned pricing for a larger half-point move. In economic news, Australia's private sector growth slowed slightly in April but remained in expansion territory for a seventh straight month, supported by continued strength in both manufacturing and services sectors.

US Bond Market

Over the course of the week, **the yield on the US 10-year Treasury note** fell by 17 basis points to 4.24%. **And it was all largely driven by dovish comments from Fed officials**. In an interview, Fed Governor Christopher Waller said he'd support rate cuts in the event aggressive tariff levels hurt the jobs market. Fed Bank of Cleveland President Beth Hammack told CNBC on Thursday **the central bank could move on rates as early as June** if it has clear evidence of the economy's direction.

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The sense that the $29 trillion Treasuries market is the port of choice in a market storm has been a unique advantage for the world's biggest economy, helping to keep a lid on US borrowing costs over the decades. But lately they've been trading a little more like a risky asset. Former Treasury Secretary Lawrence Summers went so far as to say they were behaving like the debt of an emerging-market country.

Dash for cash? Some investors may have ditched Treasuries along with other US assets to hide out in the ultimate haven: cash. Assets in US money-market funds — which are often viewed as like cash, with the extra upside that they earn money over time — have soared for some time as the Federal Reserve delayed rate cuts, and reached a record in the week through April 2.

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Beyond technical pressures, the long-term sustainability of US fiscal policy is increasingly scrutinized, potentially eroding Treasury appeal. With significant projected deficits adding to the existing debt burden, the critical relationship between Treasury yields ('r') and economic growth ('g') comes into focus. A scenario where interest costs persistently outpace growth (r > g) signals a heavier debt servicing load, raising fundamental questions about the ultra-safe status of Treasuries for long-term holders compared to assets like gold.

Concluding Remarks

President Trump vowed to do new things, and we have something new. **The American capital flight trade**, it's a major pattern in markets. When the president does something consequential and new, **we see four things**. **Stocks go down, bonds go down, the dollar goes down and gold goes up. The signature's very clear.** It's revulsion against American assets. International investors are less willing to put money in US assets, while Americans are more eager to diversify globally. It's something that we saw a little bit of during the Carter administration, but it's basically not a pattern in the United States. It's a totally common pattern in what some jokes are, submerging markets, emerging market countries that get themselves in trouble, as Argentina has many times as Erdogan's Turkey has in recent years. Most of us didn't ever think that this would become a pervasive pattern in the United States. So, from an economic and financial point of view, there is something very new and of course accumulates over time. And so, if you look at the combination of stocks, bonds, and the dollar, this has probably been the least successful a hundred days of a new president since the second World War. That's a verdict that's not being rendered by any individual. That's not a verdict that's being rendered in a partisan way. It's just reflecting the judgement of markets.

Chart of the Week

All that Glitters is Indeed Gold. Gold futures have decisively broken prior records, surging past US$3,400 per ounce and extending year-to-date gains beyond 25% as escalating US-China trade tensions and anxieties over reciprocal tariffs ripple through markets. Recent events, such as major corporate warnings (e.g., Nvidia's $5B potential hit), act as potent catalysts, accelerating the flight to perceived safety and driving gold significantly higher.

This rally reflects a fundamental shift in investor sentiment and positioning, evidenced by Bank of America's latest survey identifying "long gold" as the most crowded trade (49% respondents)—a title held by tech stocks for two years prior. This conviction is substantiated by robust and sustained inflows into global Gold ETFs since Q1, indicating broad-based demand as investors actively seek portfolio protection.

Figure 1: Gold Fundamental Index

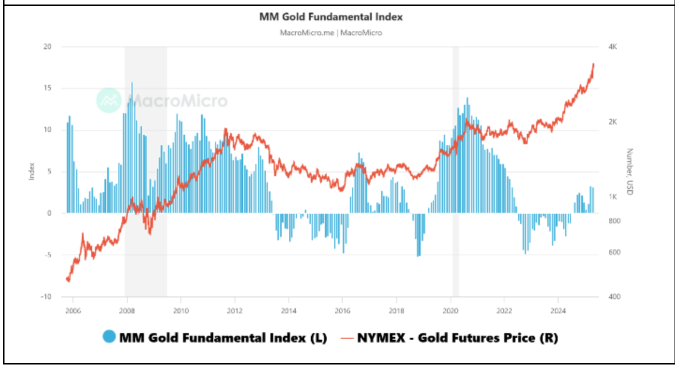


Figure 2: World Gold Futures Open Interest

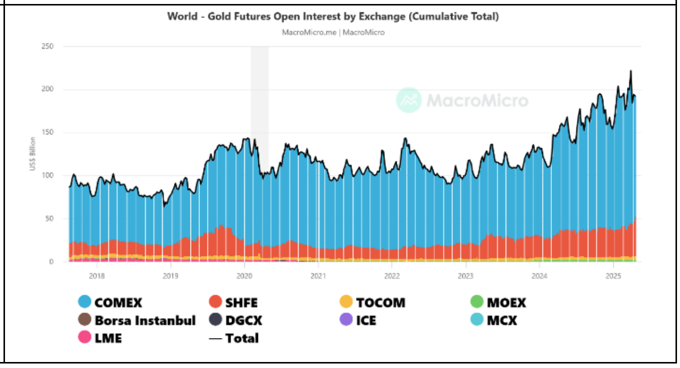


Figure 3: Share of Gold in Official Reserves

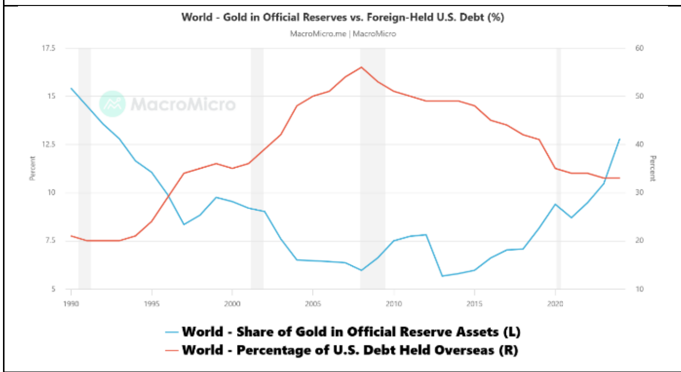
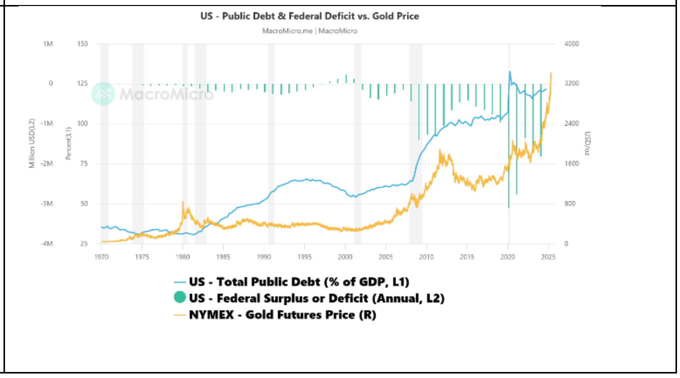


Figure 4: US Public Debt & Fed Deficit vs Gold



Looking Ahead: Scheduled Major Economic Releases for the Week of 28th April

Coming up Monday, Canada's election gets underway. Plus, we have remarks from Ollie Ren of the ECB Tuesday GM earnings and another read on US consumer Confidence. Another read on job openings data, which should show us a little bit more about the labour market plus a slew of earnings from Visa, Coca-Cola, Starbucks, and more. What will they say about the consumer? What will they say about their tariff related costs? Wednesday Mag seven earnings kick-off with Meta and Microsoft possibly get us GDP readings and that all important core PCE data. Thursday, two big ones, apple and Amazon reports and earnings as well from McDonald's CVS, MasterCard and Eli Lilly Friday. If you make it that far, we'll get the April jobs report on Friday.

Major Economic Releases for the Week ended 2 May, 2025				
Date	**Country**	**Release**	**Consensus**	**Prior**
Tuesday, 29/4	US	JOLTS Job Openings	n/a	n/a
Tuesday, 29/4	US	CB Consumer Confidence	n/a	n/a
Wednesday, 30/4	Australia	CPI Q2	n/a	n/a
Wednesday, 30/4	US	GDP Q1	n/a	2.4%
Wednesday, 30/4	US	PCE Deflator	n/a	n/a
Friday, 2/5	Australia	PPI Q1	n/a	n/a
Friday, 2/5	Australia	Retail Sales Mar	n/a	n/a
Friday, 2/5	US	Employment Report April	n/a	n/a

Market Summary

Name	Week Close	Week Change	Week High	Week Low
Cash Rate%	4.1			
3m BBSW %	3.9182	-0.085	3.952	3.918
Aust 3y Bond %*	3.339	-0.011	3.339	3.283
Aust 10y Bond %*	4.2	-0.036	4.230	4.200
Aust 30y Bond %*	4.935	-0.001	4.973	4.935
US 2y Bond %	3.836	-0.020	3.861	3.806
US 10y Bond %	4.3557	-0.063	4.389	4.356
US 30y Bond %	4.803	-0.048	4.879	4.803
iTraxx	67	-5	71	67
$1AUD/US¢	64.09	0.58	64.09	63.59

Cash

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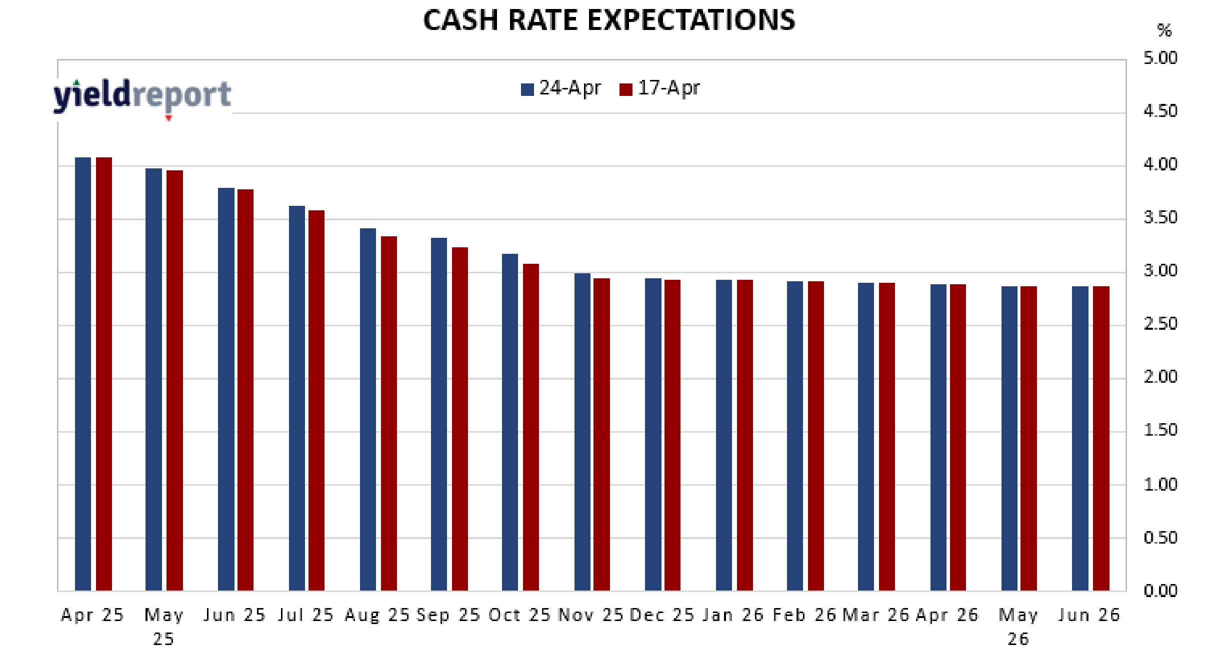
Exhibit 1: Implied RBA Cash Rate Expectations



Term Deposits

The term deposit bloodbath rages on with more returns further dropping, though a sliver of good news for savers is delivered by a few hikes squeezing into this three-day workweek.

From Tuesday to Thursday, several rates dropped in unison with the recent dip in the Australian share market (down roughly 3% year-on-year to Wednesday) and growing expectations of further rate cuts by the RBA. As of 23 April, more than half (62%) are pricing in a 50-basis point cut in the RBA Board meeting next month, with as many as four further cuts forecast by year's end.

But even before all this, yields on term deposit have been steadily trending downward. Data from the RBA shows one-year term deposit rates fell to 4.00% p.a. in March, down from 4.45% p.a. a year ago. Three-month rates slid from 3.50% p.a. to 3.00% p.a. Interest rates across all maturities average at 3.20% p.a. in March.

At the risk of sounding like a broken record, it does look like the days of TDs paying an interest rate of over 5% are firmly behind us. Currently, the highest term deposit rate in our database is 4.80% p.a., which is still better than the average bonus savings account rate, which sits at 4.55% p.a. per RBA.

Notable weekly moves include:

- **BoQ cuts term deposit rates by up to 20 bps**. Bank of Queensland trimmed the rates on some of its short- to medium-term deposits by up to 20 basis points. The top term deposit rate at the bank is still available through its 6-month TDs - though at a lower rate than last week - 4.40% p.a. paid at maturity. Customers who prefer to get their interest earnings monthly get 4.30% p.a. rate on the same product following this week's adjustments.

- **ME Bank lowers term deposit rates by 10 bps.** Following in the footsteps of Bank of Queensland, ME Bank cut term deposit rates. However, unlike its parent company, ME only touched its 4-, 5-, and 6-month TDs, applying a uniform 10 basis point cuts across. If you're comparing rates for a 6-month term deposit between the two banks, ME's 6-month term offers a higher rate than BoQ's equivalent product - 4.50% p.a. versus 4.40% p.a.

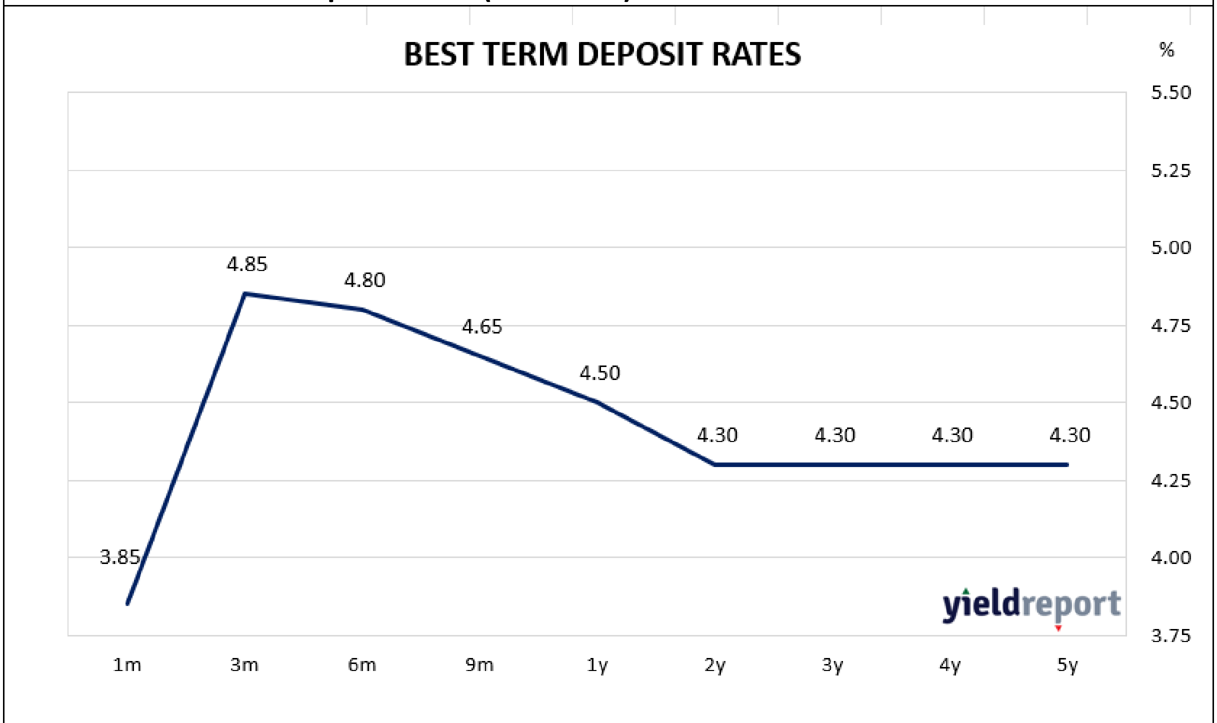
- **HSBC drops term deposit rates up to 50 bps.** HSBC Bank made sweeping cuts to its longer-term fixed deposits, with drops of up to 50 basis points. The smaller 15 bps reduction on 12-month terms may reflect near-term caution, while the deeper cuts on longer terms suggest HSBC expects rates to fall further over the coming years.

- **Bankwest cuts term deposit rates up to 20 bps.** CBA-backed Bankwest dropped the axe across its range of term deposit products. Cuts range from 10 to 20 basis points, bringing some of the bank's TDs down from 4.00% p.a. mark. Bankwest's 5-month term deposit, which currently offers the highest rate available from the bank, was also not spared from the latest rate drops, down to 4.20% p.a. (-20 bps).

Other movers

- BCU Bank varies term deposit rates up to 50 bps; mostly dropping rates while hiking 3-, 4-, and 8-month products
- Australian Mutual Bank lowers term deposit rates up to 45 bps; hikes 5-month TDs by 75 bps
- Summerland Bank cuts term deposit rates up to 15 bps
- Bank of Sydney lowers term deposit rates by 10 bps
- Illawarra Credit Union slashes 6-month term deposit special by 50 bps

Exhibit 2: Best Term Deposit Rates (12-month)



Bonds

Bank Bills/SWAPS

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On the basis of these latter comments, the rally on Thursday was led by short to intermediate-maturity tenors, which are more sensitive than longer-maturity yields to Fed interest-rate changes. Yields on two-year notes declined as much as 8 basis points to just below 3.79%, remaining inside Wednesday's range. The five-year yield declined nearly 10 basis points below 3.93%.

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Exhibit 3: Australian 3Y/10Y Bond Yield

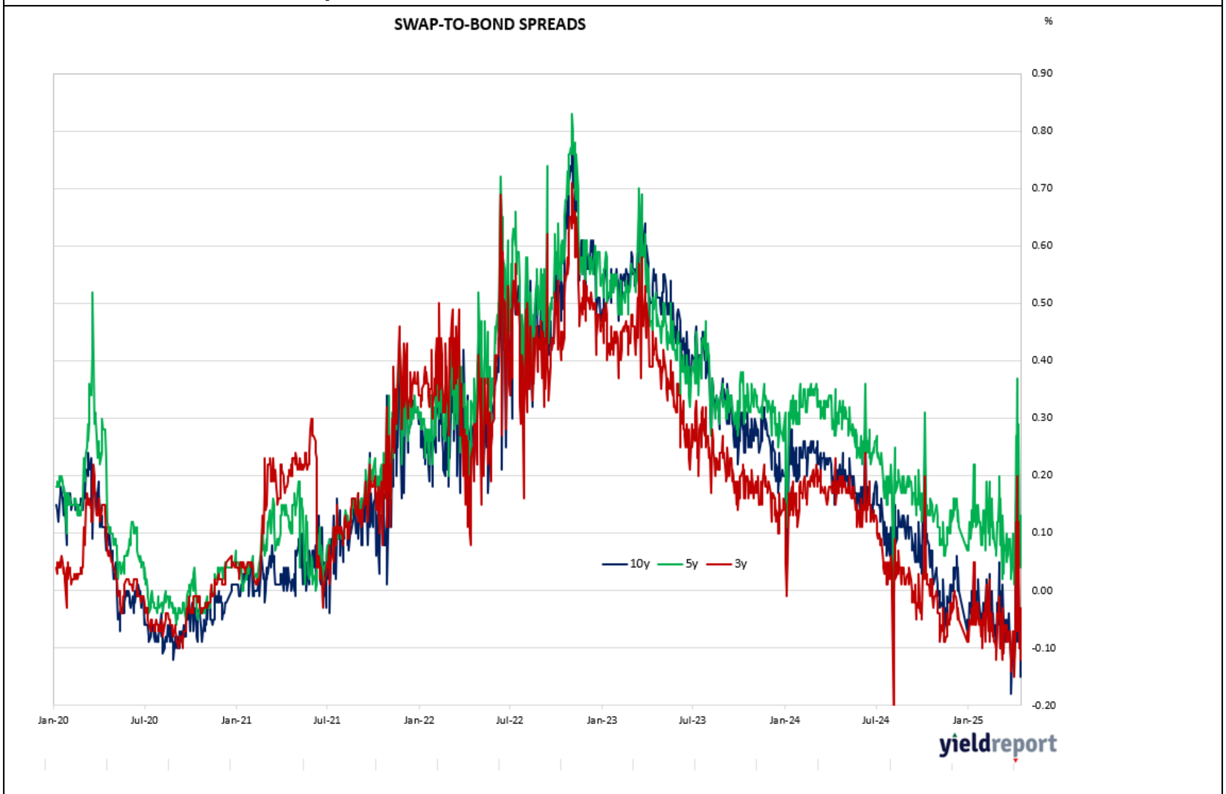
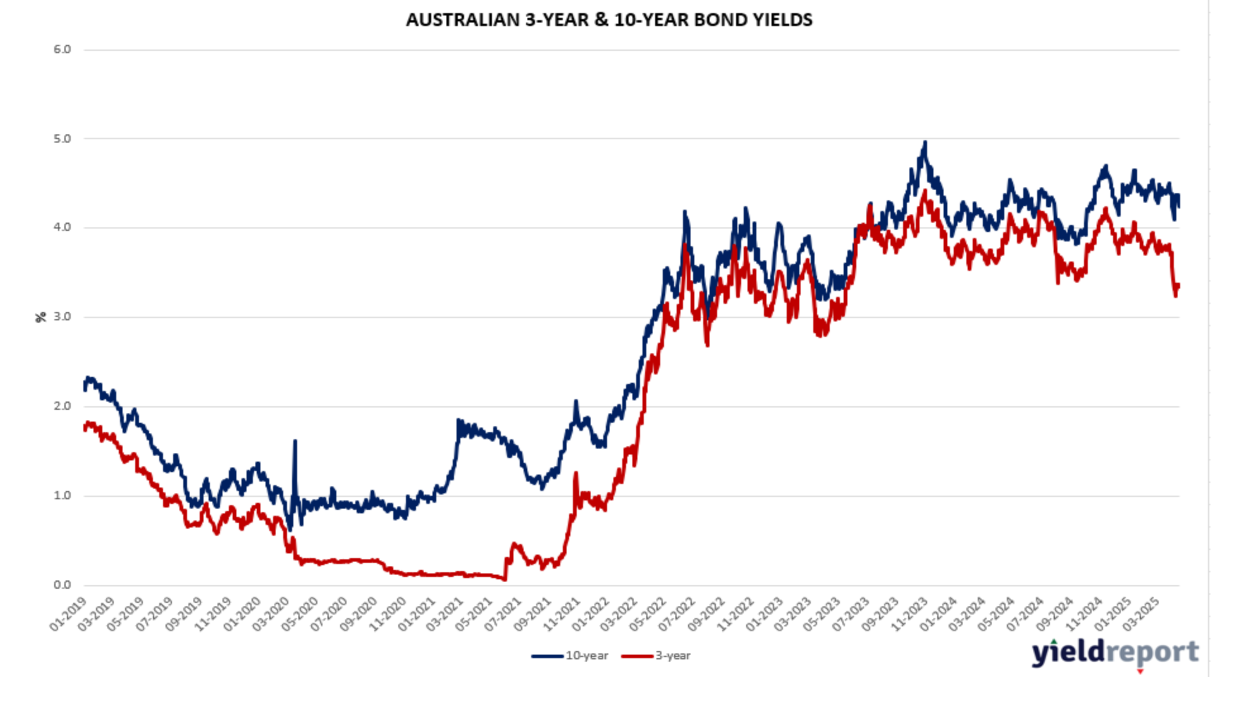


Exhibit 4: Australian Government Bond Yields



AU and US Bond Yields Spread

What the chart below highlights is just how much the Australian bond market is tracking and mirroring the US market. Chois your poison – I'd be Au Bonds any day. Sell off globally, as nerves settled.

Exhibit 5: AU and US Bond Yields Spread

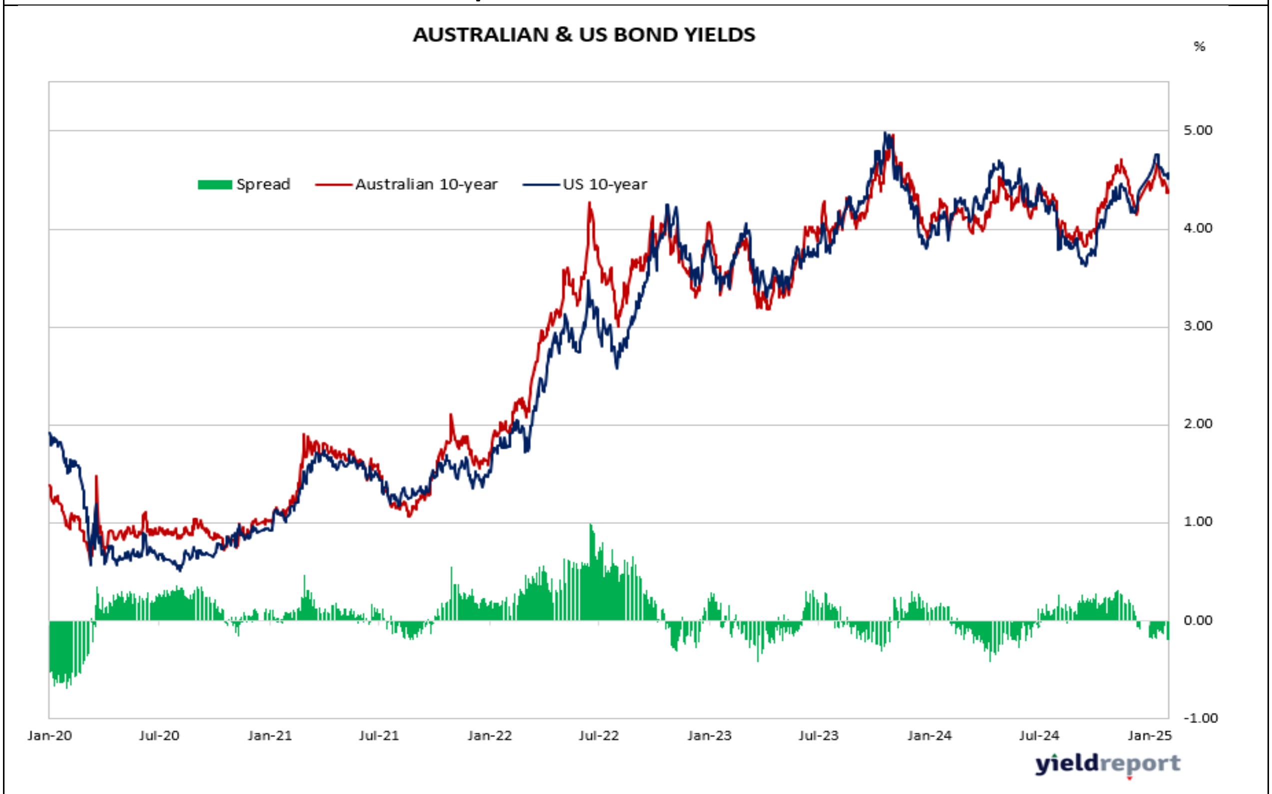
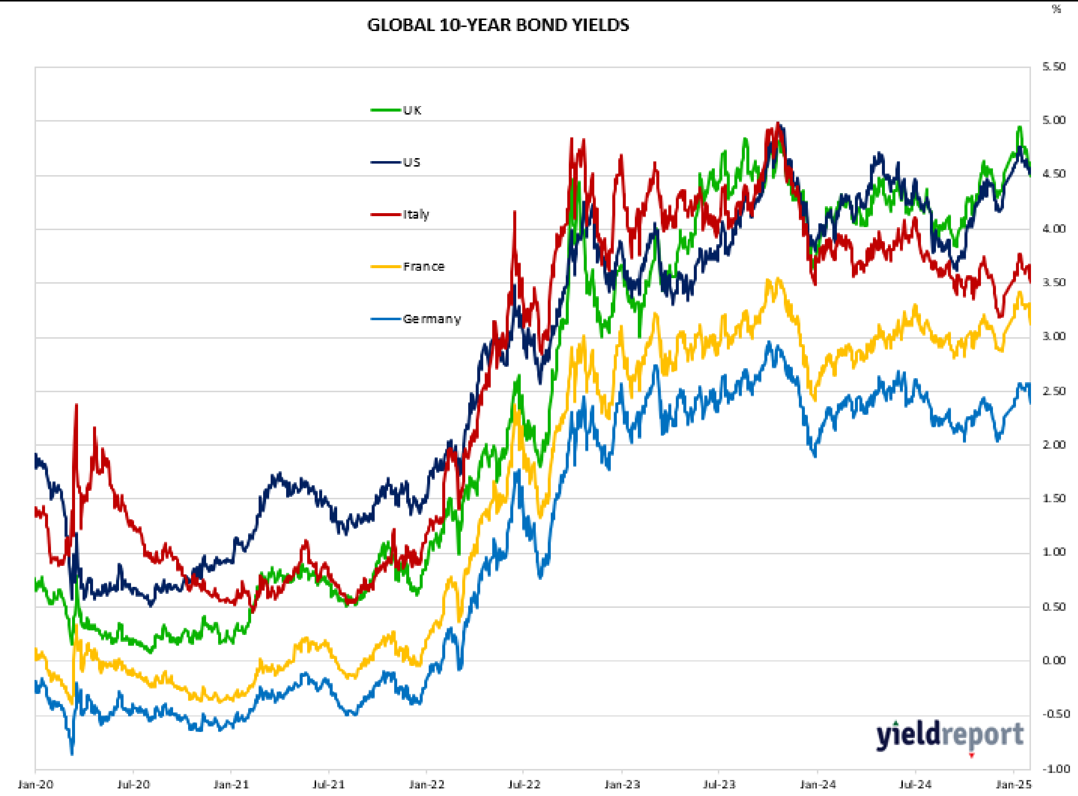


Exhibit 6: Global 10-year Bond Yields



Yield Curve

Term premiums remained elevated. In the US, investors also were motivated to buy longer-maturity Treasury debt at yield levels that offer the most compensation, relative to shorter-maturities, in more than a decade. This dynamic increased during the week, based on Fed officials suggesting a June cut. **The term premium** increased to 74 basis points, last seen in September 2014. Term premiums have been on the rise as US economic policy becomes harder to predict. A gauge of policy uncertainty neared a record this month after President Donald Trump announced sweeping tariffs and then backtracked on some. Proposals for tax cuts and a potential need to increase the US government debt limit also contributed to the move.

Meanwhile, higher Treasury yields are failing to support the value of the **US dollar** as they have historically. The relationship between the dollar and Treasury yields is the weakest in three years as investors question the dollar's haven status. Options positioning shows show that traders expect more losses for the dollar. The moves last week were highly unusual and, in an interview, yesterday, Jenet Yellen stated that she believed the move in the USD last week was a sign of foreign asset selling. But there is a ton of narratives out in the markets about last week's move.

The Australian yield curve has been steepening aggressively for 2 weeks now, mirroring the US. What is happening in the back-end is more about US bond market dysfunction. The front end is making slightly more functional sense and reflective of where the RBA is expected to move on monetary policy. That is, cuts.

At the end of the week the Australian 2-year government bond had decreased by 7 bps to 3.19%. We'd say that is a relatively accurate reflection of the RBA's thinking right now. They have noted that 1) they are in no rush, and 2) there is a madness of uncertainty currently – give us time to assess. In contrast, the money markets have been aggressive – they are at 5x 25 bps cuts now. Right now, that is not going to happen. But 'Right Now' has all the certainty of trying to look through mud.

Exhibit 7: Australian 10-yr minus 3-year Spread

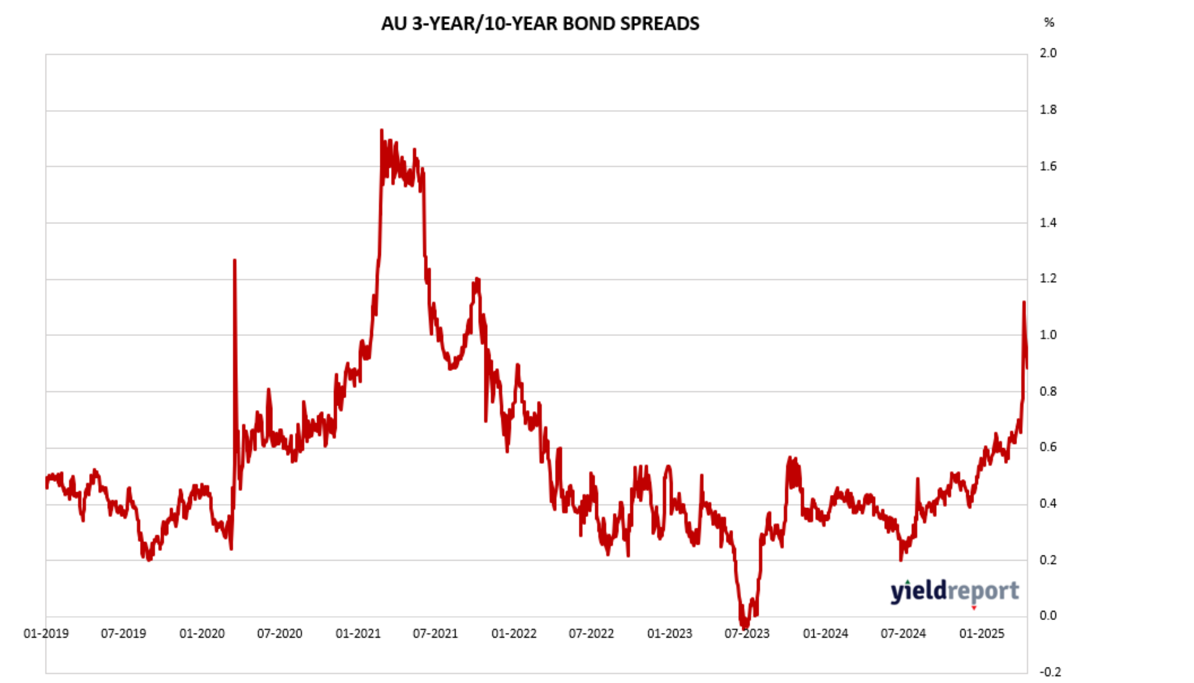
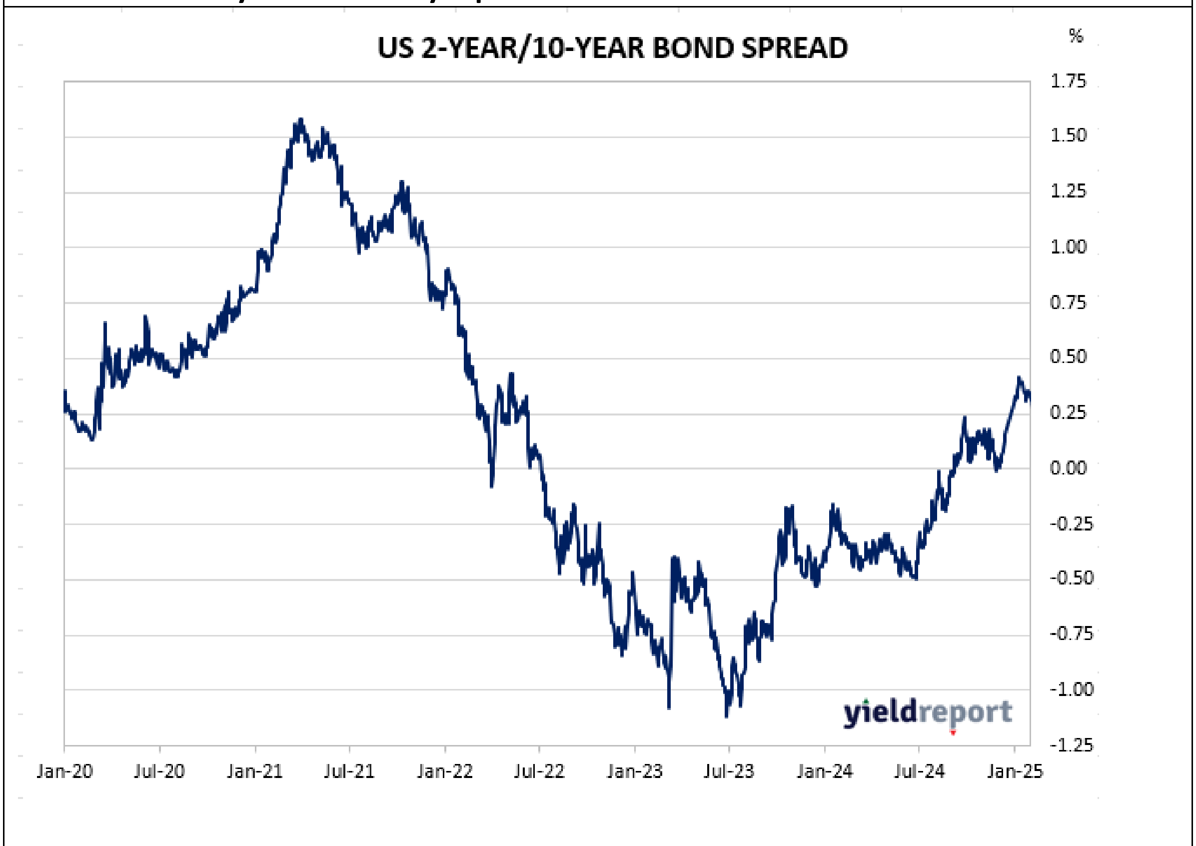


Exhibit 8: US 10-yr minus US 2-yr Spread



Corporate

Australian Corporate Bond Primary Issuance Market Re-opens

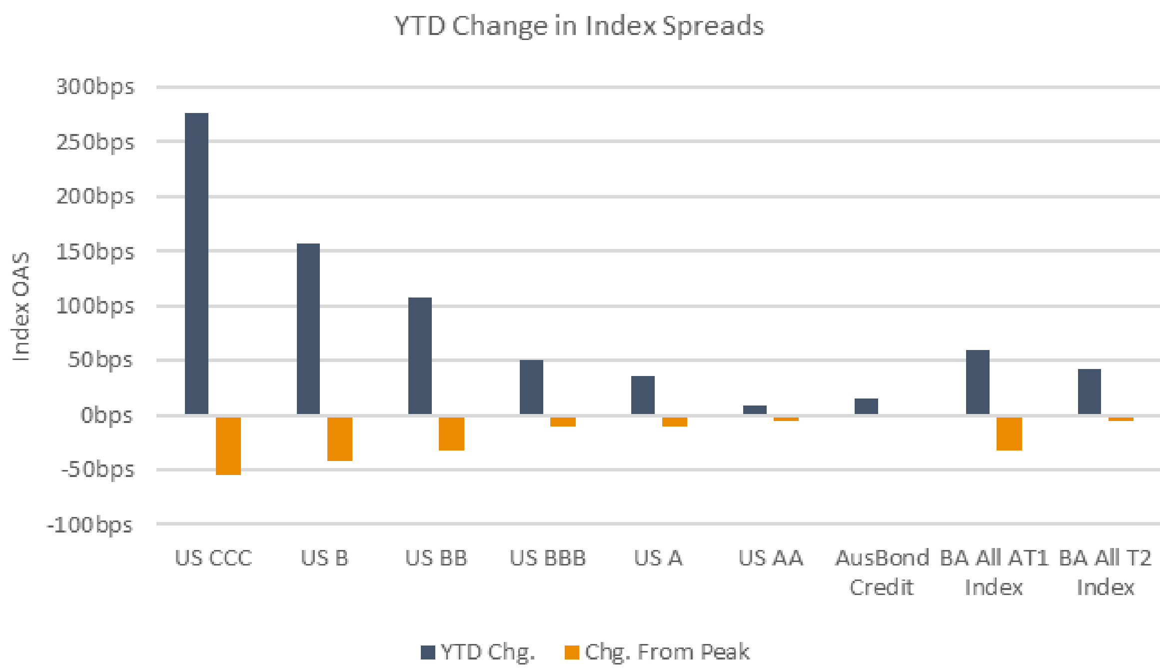
Primary issuance of Australian corporate credit is open again. During the last two weeks there was one issuance. Sydney Airport printed a $600mn 7-year senior secured transaction. The deal was 1.7x over-subscribed. The 1.7x compares to an average of 2.4x over the last 12-months. Over this period, Australian corporate debt was experiencing record over-subscription, a trend replicated in the US. Given the recent volatility, it is not unexpected that demand levels are likely to be trimmed moving forward for a while.

As we noted last week, global recession fears spooked financial markets two weeks ago with many questions left unanswered regarding the impact to company balance sheets. Positively, however, Australia was left relatively unscathed from a credit fundamental perspective with the Trump administration opting to impose the minimum 10% tariff on AU imports. For context, the US accounts for ~4% of Australia's total exports, suggesting the first order impacts should be relatively manageable.

While the medium-term outlook remains clouded, particularly should larger trading partners (such as China and Japan) slow in terms of economic growth, international revenue (ex. New Zealand) from Australian issuers in the AusBond non-financial corporate universe appears moderate at approximately ~16% on our estimates. That said, international issuers make up around 22% of the non-financial corporate AusBond Credit index which has put greater upward pressure on the credit spread of the index.

Spreads have tightened across the market since the peak reflecting the change/delay in the tariff policy implemented by the Trump administration, however, still remain broadly wider than year-to-date peaks.

The potential flow on impact of a domestic recession arising from the potential deterioration in economic conditions from key trading partners cannot be discounted, but we expect credit ratings to remain robust all else equal should Australian corporate credit remain in its bubble.



Source: BondAdvisor

Meanwhile, in **the US corporate bond market**, all risk measures declined over the week. Spreads narrowed, both the Markit CDX North American Investment Grade Index and the Markit CDX North American High Yield Index (both which measure perceived credit risk) softened, and the high yield primary issuance opened up for the first time in 2 weeks.

In the **Investment Grade space**, despite the increase in volatility driven by US economic and policy uncertainty, investment grade credit will likely continue to demonstrate resilience compared to riskier asset classes such as US high yield and US equities.

In **High Yield Credit and Bank Loans**, worth considering the following. The financial consequences of efforts to improve US government efficiency are challenging to predict precisely, as there is no historical precedent for such measures. However, we are aware of potential implications for the aerospace, defence, and healthcare sectors. All sectors are recipients of large government contracts. This latter dynamic seems to have flown under the radar to a degree. There are 2.5x more employees in these government contract related sectors than in the government itself. For instance, lower Medicaid reimbursements could impact certain healthcare facilities. Pockets of stress.

Exhibit 9: Corporate Bonds: Swap-to-Bond Spreads

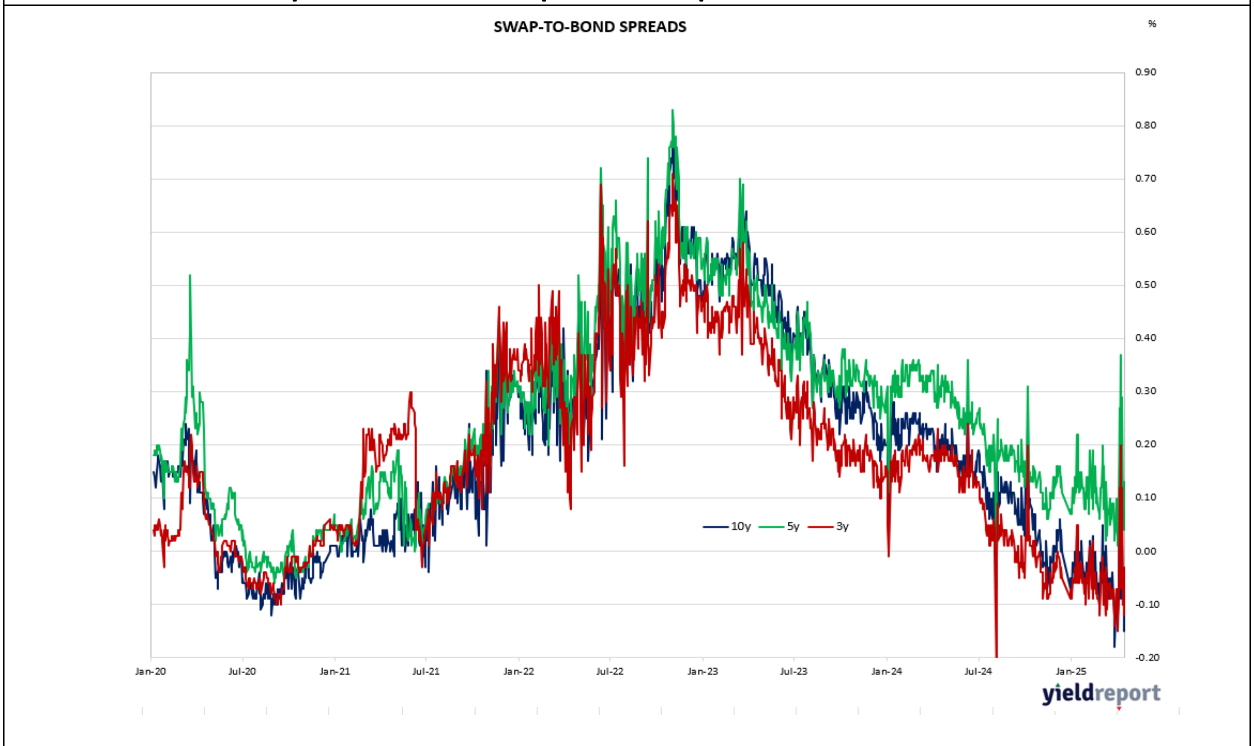
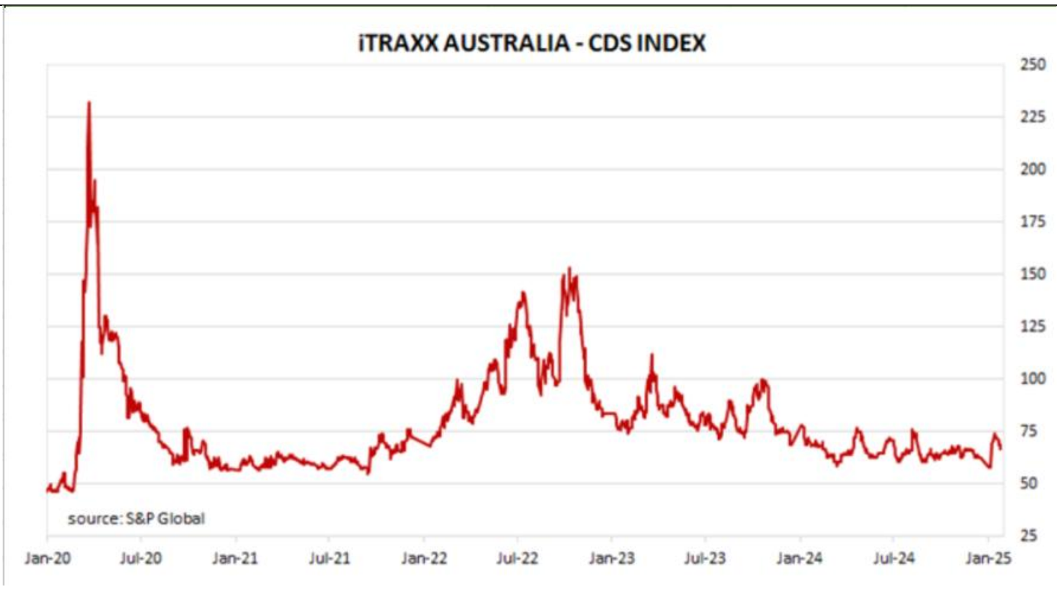


Exhibit 9: Corporate Bonds: Swap-to-Bond Spreads



Hybrids

ASX- Listed Hybrids

The **hybrid market yield cooled circa 10-13 bps** during the week, based on predominantly tenure. In short, it tracked the Australian bond market which means directionally it tracked the US treasury market. And during the week it was comments from two Fed officials about the playoff between declining growth / employment risk versus stagflation risk. The takeaway was the expectation that the former would likely predominate the latter. In short, the message was dovish. The US market is now pricing in a rate cut in June, and multiple thereafter.

ETFs

VanEck issued two new ETFs during week. An Australian RMBS ETF and an India Growth Leaders ETF.

Talking about thematic investments, this week saw announcements that BlackRock and Global X would become the latest issuers rushing to **jump on the bandwagon of launching European defence ETFs**. The theme emerged with WisdomTree launching an in-house-built European defence index coinciding with Donald Trump entering his second term in office. The subsequent launch of the firm's related ETF – the first of its kind – came within a week of the US President withdrawing funding to Ukraine in March. With the ETF amassing $1.4bn assets under management (AUM) in just six weeks, rival strategies from HAN etf and BNP Paribas Asset Management hurried to market.

Elsewhere, **inflows into gold exchange-traded products (ETPs) propelled gold past the $3,500 per ounce mark for the first time** as investors flocked to safety amid tariff uncertainty and President Trump's threats to

oust Jay Powell from his position as Chair of the Federal Reserve. The historically reliable relationship between ETF flows and the gold price broke down in 2023 and 2024 but it has returned with a vengeance so far this year – with ETF inflows forcing gold through $3,000 and then $3,500 just one month later.
In the **Australian ETF segment**, the industry recorded more than $3 billion in net flows in the month of March– the ninth consecutive month that flows topped $3 billion. However, funds under management fell 2.4% in March to $249.4 billion due to declining share markets and more than offsetting the inflows.

Forget the FUM figure – markets go up and down. The Inflow figure is testament to secular change that is underway. Active equities from most managers have underperformed versus the market, in contrast to active bond strategies.

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Forget the FUM figure – markets go up and down. The Inflow figure is testament to secular change. Active equities are proven underperformers versus the market, in contrast to active bond strategies. You can list the number of consistent active equities outperformers in Australia on one hand, and I'm not exaggerating. Games up and no wonder several managers are buying into private debt capabilities.

Listed Investment Companies & Trusts

Having a bad month in the markets? Well, **some of the country's best known fund managers have been** penalised by investors. **Regal** is notable. Their Atlantic Absolute Return fund is down 35% in March alone. The head stock is down 50% ytd, 2025.

On the **topic of LICs, the WAM Income Maximiser initial public offering** from Wilson Asset - the AFR reports that Wilson Asset brought in roughly $150 million for its new ASX-listed vehicle – a valiant effort considering the bookbuild collided with a 14% decline in the S&P/ASX 200 from peak to trough and Trump's trade chaos, but a far cry from the $510 million target sought in the prospectus. If Geoff Wilson can't get a successful IPO off, probably no one can!

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