# yieldreport Weekly

## Your Income Advantage

**28th April - 2nd May 2025**

## *Overview of the US Equities Market*

What's a good day on the markets? When you barely hear from Donald Trump. Anyways regarding the week, the week was part of a now 9-day straight rally in the S&P 500 that marks the longest winning streak since 2004. The index is on pace to post a 14% gain since its April 8 bottom that pushed the S&P 500 to the brink of a bear market. **Momentum, Growth, and the Mag 7 are back** after a sustained period where Quality, Low Vol, and Defensive predominated.

Over the course of the week, the **S&P 500** was up 2.9%, the **Nasdaq 100** up 3.7%, and the **Dow Jones Industrial Average** up 2.2%. When the markets go up, gold goes down and it slid most of the week. Yields on the 10-year increased 7bps to 4.31%By the way, **Block** got smashed on Friday, down 20% - consider that a sign of **lower income / younger demographic consumer pull-back**, and it started in February, well before the tariffs.

What's driving markets – earnings but more importantly it has been the macro, namely an easing in the tariff rhetoric and indication of bilateral negotiations.

**On the earnings front, four of the Mag 7 reported**. On after-market close on Wednesday, Microsoft Corp. and Meta Platforms Inc. reported and jumped after-market on upbeat results. On Thursday, Microsoft was up a mere 8%, its best after results performance since 2015 (although to be fair many hedge funds were short). On after-market close on Thursday, both Amazon.com Inc. and Apple Inc. reported. And the results, or messaging at least, could not have been more different to Microsoft and Meta. Both Amazon and Apple's quarterly earnings were affected by tariff and trade policies, with Amazon citing "recessionary fears" and "global economic and geopolitical conditions" in its forecast.

Quarterly earnings from both **Amazon and Apple put on full display how the trade wars threaten the bottom line of even big tech companies — at least those in the business of selling physical things**. The iPhone maker warned investors on Thursday that tariffs will increase its costs by $900 million in this quarter. In a potential foreshadowing of what's to come: Apple's sales in China missed investor expectations. In contrast, the results of Microsoft Corp., Meta Platforms Inc. and Alphabet Inc. all demonstrated that, for now, it's business as usual when selling digital goods like software advertisements and cloud computing services. **The big difference:** Import taxes don't apply to installations of Microsoft Word or YouTube ads the same way they do to a new coffee maker bought on Amazon. Plus, the primary customers for software and cloud computing are businesses, which don't get spooked as quickly as consumers. On Friday, Amazon shares were down 1%. Apple tanked 4% and we saw some downgrades on Friday as well (the earnings call left analysts unsure of what's going on beyond 2Q).

**Who is buying?** Charles Schwab is firmly of the opinion that the last 8-day up move has been firmly driven by retail investors. And Charles Schwab would know. For example, today they bought a number of their favourite stocks (Microsoft and Meta) and sold, after earnings misses and cutting full year guidance, GM and Harley Davidson – two stocks consumers / retail investors are very familiar with. More broadly, there has been a degree of short covering on a number of the Mag 7 and potentially a degree of mechanical buying.

On the topic of **uncertainty and risk, at least at the consumer level**, we found the earnings result from McDonalds released on Wednesday more interesting. McDonald's US sales fell 3.6% in the first quarter, the biggest drop in the chain's home market since 2020, due to a decline in customer counts. The results suggest that McDonald's focus on affordable menu options, coupled with temporary offerings, haven't been enough to help customers overcome anxiety sparked by a trade war that's already led to higher prices for some products. McDonald's had previously warned that low-income consumers were struggling. Similarly, a slump in consumer sentiment also contributed to weak results at Chipotle Mexican Grill Inc., Starbucks Corp, the Airlines and AirBnB. Currently, 50% of consumer related stocks that have reported have not met EPS guidance.

The **Tesla Board looking for a new CEO?** Elon Musk is going nowhere. The bulls on Tesla do not want Tesla to be just a car company. They want it to be an AI company. And much of that AI currently sits in Elon Musk's head. Any new CEO would simply make Tesla a car company.

**On the macro front**, please refer to the 'Overview of US Bond Markets' section. Suffice to say, it was Friday's nonfarm payrolls release that proved instrumental, with the better-than-expected result driving markets.

## *Overview of the Australian Equities Market*

Like the US, the Australian equities markets were on a consistent upwards trajectory all week, and by Friday had notched up seven consecutive sessions of gains, as improving global trade sentiment and upbeat domestic data boosted investor confidence. The S&P/ASX 200 Index finished 3.4% higher. It was the best week for the index since December 2023, and if not for that week – in over 10 years. The gains were widespread, with the notable exception of golds stocks.

Over the week, the information technology sector was the best performing sector, +9.6%. Local tech stocks followed positive sentiment from tech giants when Microsoft and Meta posted better-than-expected quarterly earnings results, sending Microsoft's shares up almost 7% in afterhours trading. On Thursday alone, WiseTech rallied 6.6%, Xero jumped 3.2% and NextDC rose 4.6%. Other notable sectors were Real Estate (interest rate sensitive), Healthcare (defensive), and Consumer Discretionary (improving global trade sentiment / lower economic risk).

Tuesday was a notable day for several resource sectors based on better-than-expected earnings results. In relation to Energy, a better-than-expected quarterly update from Boss Energy (+14.3%) today drove the entire ASX uranium sector - Deep Yellow rose 10.3% and Paladin Energy 9.7%, extending the latter's five-day advance to 42.8%. Additionally, the uranium price is rallying again. Minerals Resources (+13.1%) also released a better-than-expected quarterly report. The price reaction was likely a combination of buying the dip and, probably, short covering. Uranium stocks continued their recent resurgence on Friday with Boss Energy (BOE) (+5.3%), Bannerman Energy (BMN) (+4.1%), and Paladin Energy (PDN) (+2.8%) notable standouts.

On Wednesday, the CPI print reinforcing expectations of a near-term rate cut, Rate sensitive stocks led the gains. Leading the gains among financial and consumer stocks were Commonwealth Bank (+1.7%), ANZ Group (+0.8%), Wesfarmers (+1.6%), and the Real Estate sector more broadly notching up solid gains on the day.

## *Overview of the US Treasuries Market*

Over the course of the week, the yield on the 10-year US Treasury notes increased 7bps to 4.31% while the yield on the 2-year US Treasury note was also up 7bps to 3.83%. These small weekly moves belie the intra-week. Yields had been drifting down for the first half of the week, probably more about declining risk premium as the administration was making positive tariff statements, but the solid Core PCE print on Wednesday and the stronger than expected nonfarm payrolls report on Friday reversed that. The latter report essentially led to a reset on interest rate expectations.

The **term premium remains elevated** based on a combination of longer-term fiscal concerns and policy uncertainty. Essentially, bond managers are requiring higher yields on longer maturities, with the term premium at its highest since 2014, and are becoming more cautious in their investments, favouring shorter maturities and limiting their exposure to longer-term bonds. In the new world order, call it the **Fear of the Long Bond**.

It was a **massive week on the macro and sentiment survey front**. On Wednesday, Q1 GDP, consumer spending for March and the Fed's preferred inflation measure, core PCE for both Q1 and the month of March were all released. On Thursday, the Institute for Supply Management survey was released. On Friday, nonfarm payrolls for April were released and was better than expected, but most economists anticipate the brunt of the impact from punishing levies will be seen in coming months.

**The net result?** The **Fed will be on hold and will wait until the hard data flows** through. We all know that the Fed is data driven and will not move on interest rates based on either uncertainty or forecasts. However, based on solid payrolls on Friday, the **market materially repriced both the degree of cuts**, from four 25 bps cuts to December to 3.2 cuts and the policy sensitive 2-year yield jumped 11 bps, and **the velocity of cuts – they have been pushed back**. While there was a slew of macro releases during the week, it was the payrolls that was pivotal, which makes sense as it, along with PCE, is fundamental to the Fed's dual mandate – inflation and employment.

**Regarding Q1 GDP**, the **US economy contracted in Q1 for the first time since 2022** on monumental pre-tariffs **import surge** and more moderate consumer spending, a first snapshot of the ripple effects from President Donald Trump's trade policy. GDP decreased an annualized 0.3% Q1, well below average growth of about 3% in the prior two years. The data highlight the scramble by companies to secure merchandise ahead of expansive tariffs, with net exports subtracting nearly 5 percentage points from GDP, the most on record. A decline in federal spending also weighed on the figure. **The GDP result, or at least the direction, was not unexpected** – it has been well noted that businesses and consumers (auto sales, etc) were front running the tariffs. However, looking further out, forecasters contend that the higher duties will cause a supply shock, challenging businesses and leading to a pullback in demand. The Q2 GDP figure will look very different.

Meanwhile, **consumer spending** climbed 0.7% last month. That was the most since the start of 2023 and suggested households spent aggressively to get ahead of new tariffs.

**Meanwhile Federal Reserve's preferred, core PCE inflation**, was released for Q1 and the month of March. The gauge showed core PCE inflation was up for Q1 but was flat for the month of March YoY. The former, at 3.5%, accelerated more than expected. However, the latter means we had no inflation YoY. However, April will be a different situation. We note reports of some very large price increases now being reported towards the latter part of April.

**US manufacturing activity shrank** by the most since November. The Institute for Supply Management's factory gauge eased 0.3 point to 48.7. The group's production index stumbled more than 4 points to 44. Readings below 50 indicate contraction. Orders shrank for a third month and backlogs retreated at a faster pace, consistent with subdued demand. Weak orders, slower production and declining backlogs help explain a third straight month of decreasing manufacturing employment. The figures illustrate an industrial sector struggling for traction as US tariffs and general uncertainty surrounding trade policy interrupt expansion plans.

**Jobs growth was robust in April** and the unemployment rate held steady; nonfarm payrolls increased 177,000 after the prior two months' advances were revised lower. The report showed remarkable resilience in the labour market ahead of a coming tariff shock. While in the short term that's supportive of equities, where hope springs eternal, it may weigh on bonds as it means less opportunity for pre-emptive rate cuts. Longer-term, a fully recovered US equity market has almost no room to deal with inevitable bad news on the economic or tariff fronts.

In terms of the actual data, of note are the increase over the past two months in labour participation and hours worked, and the decline in the more comprehensive unemployment rate. All three of those details point to a firming labour market, not a weakening one, since in a weaker environment firms would tend to cut hours and labour participation should fall as discouraged workers work part time or leave the workforce.

As the Fed has already indicated, the labour market is in a good enough place that it won't cut unless it softens considerably. This report, then, pushes back the timetable of possible rate cuts. Swaps markets have still fully priced a July cut, but the chances of a June cut are now below 50%.

**Figure 1: Australian & US 10-yr Govt. Bond Yields**

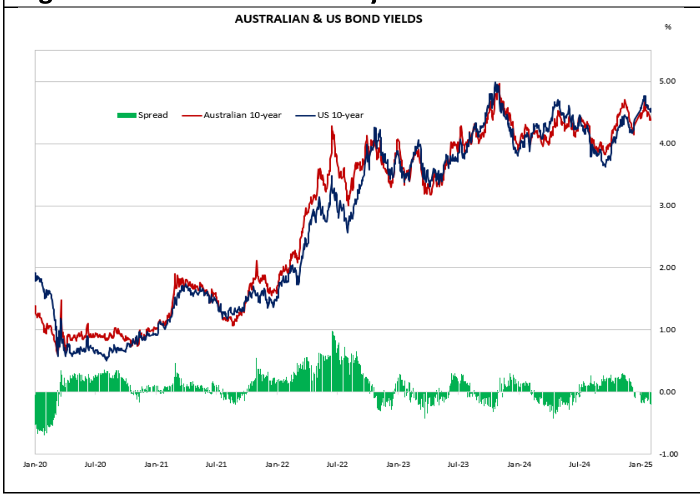
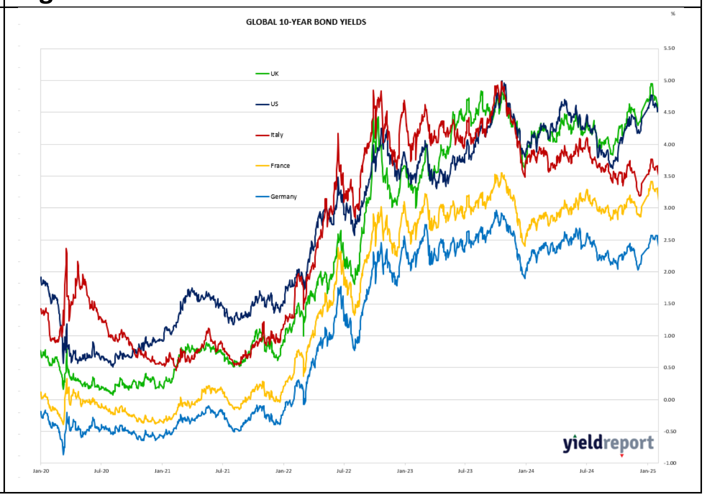



**Figure 2: Global Bond Yields**




## *Overview of the Australian Government Bond Market*

Over the course of the week, Australia's 10-year government bond yield rose circa 5 bps to 4.18%.

There were a number of material economic releases, most notably the CPI data on Wednesday. Headline and trimmed mean core inflation are both finally back inside the RBA's target band of 2-3%, albeit at the very upper end. Core inflation, the RBA's more closely watched underlying measure of inflation, rose 0.7% for the quarter, 2.9% annualised. Headline inflation rose 0.9% for the quarter, 2.4% annualised.

**Core inflation was broadly in line with RBA forecasts**, but slightly above the expectation of market economists for underlying inflation of 0.6% for the quarter and 2.8% in annual terms. Headline CPI was expected to come in at 2.3%. So let's just call it in-line. In response, Australia's 10-year government bond yield held steady at 4.15%.

**The market is 100% priced** in for a May 20 25 bps cut and 56% probability of a jumbo 56 bps cut. Economists are also all in for May, but very few expect a jumbo cut. Economists, being more circumspect, state it is exceptionally likely but not a certainty.

Meanwhile, **for the remainder of 2025**, the market is price in a tad over four 25 bps cuts to 3.0% by year end and a terminal rate of 2.85 in 12-months by May 2026 – five 25 bps cuts. For economists, a May rate cut followed by two or three more this year is forming as the consensus view.

On Thursday, Australia posted a **trade surplus** of A$6.9 billion in March, up sharply from a downwardly revised A$2.85 billion in February and beating expectations of A$3.13 billion. Additionally, **Australia's manufacturing sector showed continued expansion** in April, though at a slower pace than the previous month, according to the S&P Global Manufacturing PMI. The final PMI reading was 51.7, down from 52.1 in March, and still above the 50.0 threshold indicating expansion. While the pace of growth eased, it remained strong, driven by increased new business inflows and a rise in production. However, optimism among manufacturers dipped to a six-month low, and input cost inflation increased further due to foreign exchange volatility.

Finally, on Friday, and going in the opposite direction, **retail sales rose just 0.3% in March**, down from a revised 0.8% gain in February and below expectations of a 0.4% increase.

## *Concluding Remarks*

On the macro front in the US, we can push recession concerns to another month. Job numbers remain very strong, suggesting there was an impressive degree of resilience in the economy in play before the tariff shock. That indicates that economic weakness may not truly materialise in the numbers for several months yet, in turn pushing the next Fed cut into Q3. Certainly, why would the Fed start cutting rates right now when the unemployment rate is near record lows, the consumer is still fairly robust, and inflation is running above target? The economy will weaken in the coming months but, with this underlying momentum, the US has a decent chance of averting recession if it can step back from the tariff brink in time.

## *Chart of the Week*

The two charts below display the CBOE VIX volatility on Google and Apple. Currently, the figures are: Google: 32.8; Apple: 40.8. Not a huge difference but we would not be surprised to see a further divergence moving forward. Apple is the worst placed of the Mag 7 in relation to China tariffs – both manufacturing and its total of 15% of group sales being in China. We also go back to what we mentioned earlier. Import taxes don't apply to YouTube ads (or installations of Microsoft Word, etc) the same way they do to Apples physical goods or a new coffee maker bought on Amazon. Plus, the primary customers for software and cloud computing are businesses, which don't get spooked as quickly as consumers. **Depending on how the tariff situation evolves from here, you might start to see a bifurcation amongst the Mag 7 stocks based on tariff exposures.**

**Figure 3: CBOE – Equity VIX on Google**

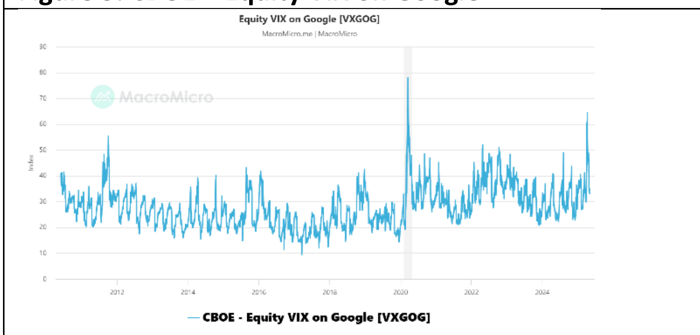
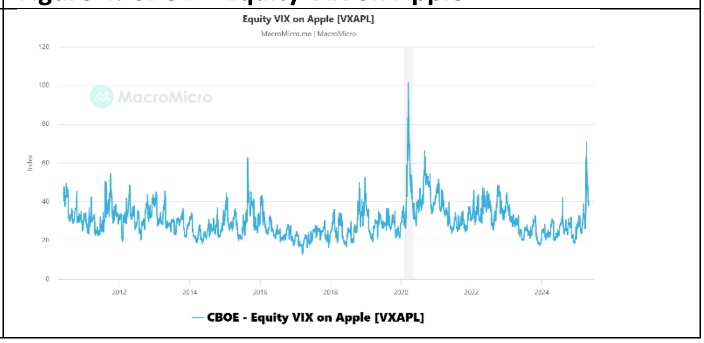



**Figure 4: CBOE – Equity VIX on Apple**



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## *Looking Ahead: Major Economic Releases for the Week Ended 9 May*

| Major Economic Releases for the Week ended 2 May, 2025 | | | | |
|---|---|---|---|---|
| **Date** | **Country** | **Release** | **Consensus** | **Prior** |
| Monday, 5/5 | Australia | MI Inflation April YoY | n/a | 2.8% |
| Monday, 5/5 | Australia | ANZ – Indeed Job Ads April | n/a | 0.4% |
| Monday, 5/5 | US | ISM Services April | n/a | 50.8 |
| Tuesday, 6/5 | Australia | Dwelling Approvals March | -1.5% | -0.3% |
| Tuesday, 6/5 | Australia | Household Spending March | 4.2% (YoY) | 3.3% (YoY) |
| Tuesday, 6/5 | US | Trade Balance March | n/a | -$122.7bn |
| Wednesday, 7/5 | US | FOMC Policy Decision | n/a | 4.375% |
| Thursday, 8/5 | US | Wholesale Inventories | n/a | 0.5% |

In relation to Australia, we would expect that the Household Spending data to be released on Tuesday to garner much interest, and largely from the bond markets and the RBA.

The **more interesting releases are in the US** and over three consecutive days starting Tuesday. The **Trade Balance** data is for March and pre-dates the April 2 'Liberation Day'. However, the April release could be interesting from a political perspective, providing some guidance of the effectiveness, or lack thereof, of the tariff policy. The **FOMC rates decision is on Wednesday**, but the market is not expecting a cut. In fact, following the jobs data last Friday, many economists have pushed the next rates cut back to the 3Q period. Finally, **Wholesale Inventories** on Thursday. This will be a fascinating release given the pull forward which was evident in last week's GDP figure, specifically imports. The figure won't move the market, but nevertheless.

## *Cash*

The key development of the week was the release of the **Q1 CPI figure on Wednesday**. Headline and trimmed mean core inflation are both finally back inside the RBA's target band of 2-3%, albeit at the very upper end. Core inflation, the RBA's more closely watched underlying measure of inflation, rose 0.7% for the quarter, 2.9% annualised. Headline inflation rose 0.9% for the quarter, 2.4% annualised.

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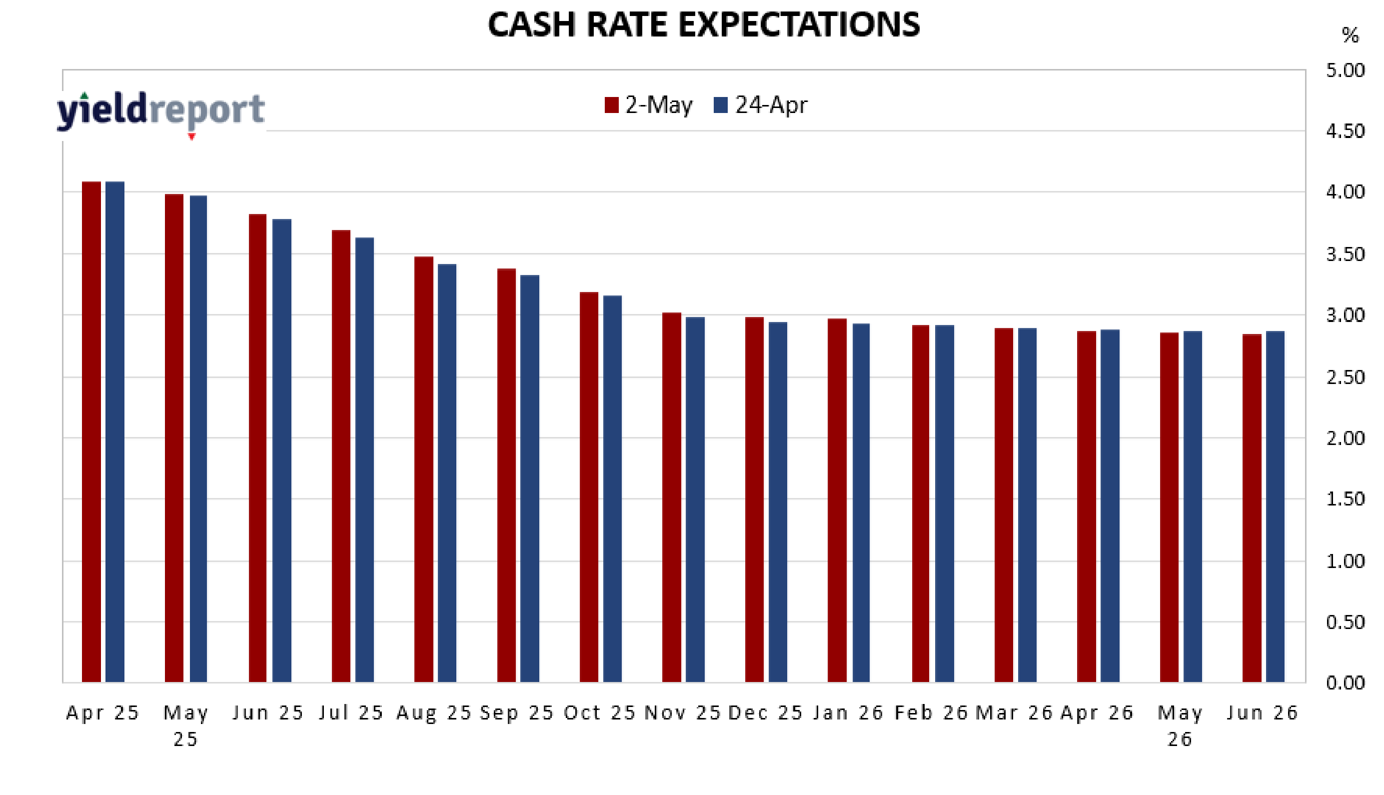
As noted in the AFR, "State Street Global Markets' head of APAC macro strategy Dwyfor Evans, whose firm runs its own price monitoring data, says Australia hasn't toppled its inflation issue, thinks the RBA has been deliberately noncommittal about cutting rates and think **markets will have to wind back its pricing** – that is, this spate of rate cuts isn't coming in the forseeable future. "The disinflation story, it is not really there," Evans says." We couldn't agree more.

A 2.85% can only justifiably be posited on an economic shock and which can only perceivable come from a persistence of Trump tariffs at circa current levels. And currently Trump is trying to reverse as quick as possible without losing face. But if we get an economic shock, then equities are looking risk and bond yields at current levels an attractive entry point.

**Figure 5: ASX 30 Day Interbank Cash Rate Futures Implied Yield Curve**




## *Term Deposits*

**NAB, Macquarie lead term deposit rates lower**. Another week, another round of term deposit interest rate cuts, with two of the majors among the latest rate slashers.

It's no secret interest rates are heading lower, particularly after this week's inflation data showed underlying inflation has dipped to within the RBA's target range for the first time in more than three years. That's good news for the economy, although depositors will no doubt miss the days when their cash earned 5%-plus interest without them having to think too much about it. But those times are over with 4.80% p.a. the best rate currently offered on the term deposit market for a six-month deposit. Longer term rates are decidedly lower in a sign where the market sees rates heading for the foreseeable future.

This week, more than a dozen authorised deposit-taking institutions (ADIs) were busy dropping term deposit rates, including a couple of the big guns, namely NAB and Macquarie Bank.

**NAB offers only one rate above 4%**. National Australia Bank's best rate is now 4.20% p.a. for amounts between $5,000 and under $2 million, deposited for seven months. It's a five basis point drop on the old rate but other rates have taken bigger hits - up to 20 basis points.

**Macquarie tweaks 3-month rates**. The team at Macquarie has shaved five basis points off its three month rates.

**Gateway trims market-leading rate**. The customer-owned bank has taken five basis points off its top rate, dropping it to 4.80% p.a., but still claiming the market's best six-month rate along with Heartland Bank and G&C Mutual Bank.

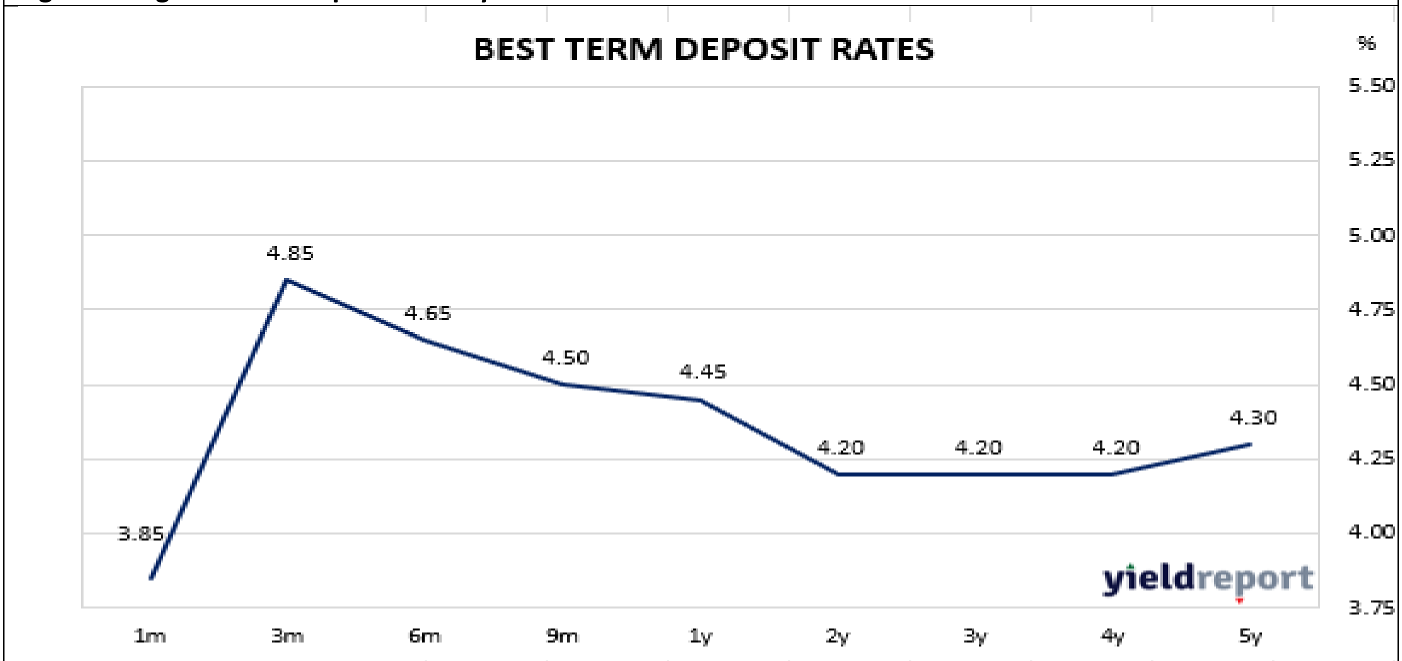
**Judo bows out of rates leaderboard**.As foreshadowed, Judo Bank has relinquished the top six-month market ranking to its previous small bank stablemates. Judo's taken 20 basis points off, with its new rate 4.60% p.a. for amounts between $1,000-$2m, with interest paid end of term. The challenger bank's new top rate is 4.70% p.a. for three months, a five basis point slice off the old rate.

**Newcastle/Greater Bank go big on rate cuts**. There was no mucking around for the merged Newcastle Permanent and Greater Bank brands, with the two slashing 50 basis points from their two-, four-, and five-year rates. The group's best new term deposit rate is 4.35% p.a. for six months for amounts $1,000 and over, with interest paid end of term. That's a hefty 30 basis points off the old rate with only the six-month and 12-month rates now sporting a '4' in front.

**RACQ Bank chops up to 60bp**. The Queensland-based bank had been amongst the leading pack with its three-month rate which has now seen a 35-basis point cut to 4.50% p.a. It's part of a suite of cuts which also take in its longer-term two- to five-year rates - now uniformly at 3.30% p.a. with the two-year rate copping a 60 basis point drop. RACQ Bank's new best rate is 4.55% p.a. for six months for amounts over $1,000 with interest paid end of term.

**IMB Bank rare rate booster**. IMB Bank gets its own headline for boosting its three-month rate by 15 basis points to 4.35% p.a. for amounts $5,000 and over. But it comes at the same time as a 25-basis point cut to its both its six- and 12-month rates, now 4.25% p.a. and 4.00% p.a. respectively.

**Figure 6: Highest Term Deposit Rate by Term**



**Other term deposit rate cutters:**

- Beyond Bank has cut up to 25 basis points off its term deposit rates with a new best rate of 4.40% p.a. for amounts over $50,000 deposited for three months
- Australian Military Bank has stood down rates by up to 50 basis points on its Investment Plus, Income Plus, and Teen Plus products for terms under 15 months
- MyState Bank has pulled back the rates on a range of its online, regular, and income term deposit products by up to 30 basis points
- Horizon Bank has dropped its term three-, six-, nine-, and 12-month term deposit rates by up to 20 basis points
- Arab Bank Australia has taken 20 basis points off its nine-month and one-year term deposit rates
- First Option Bank has slashed up to 40 basis points off its three-, six-, nine-, and 12-month term deposit rates.

## *Government Bonds / US Treasuries Yield Curve*

The US term premium eased slightly on Thursday and Friday with the backup in the 2-year as the market reset Fed cuts, and particularly on Friday on the jobs report. Nevertheless, the **term premium remains elevated** based on a combination of longer-term fiscal concerns and policy uncertainty. Essentially, bond managers are requiring higher yields on longer maturities, with the term premium at its highest since 2014, and are becoming more cautious in their investments, favouring shorter maturities and limiting their exposure to longer-term bonds. In the new world order, call it the **Fear of the Long Bond**. And we can't see that changing over the foreseeable future, and partly because the demand is increasingly moving to the front and circa 5-year part of the curve. In fact, the yield curve will likely steepen from here. If it does, obviously long-end yields will start to become more attractive.

Beyond last week and more broadly, rates on the long-end of the yield curve have risen steadily since the April 2nd tariff announcement, with 30-year nominal rates climbing 27bps and real 30-year rates popping 36bps. The dramatic move in the long-end of the curve has seen 10-year term premium push up to 10-year highs. Some of the move may be attributable to positioning and other temporary factors - the notable plunge in prime brokerage leverage data and the sharp move towards even more deeply negative swap spreads are consistent with the unwind of levered curve bets by hedge funds and other speculative actors. However, there are reasons to believe that long rates may continue to be volatile or even move higher, including a continued deterioration in the fiscal outlook, as noted above.

While the unwind of leveraged curve trades has sparked a sell-off on the long-end and a steepening of the yield curve, the front-end of the curve (0 to 5 years) has stayed elevated and relatively flat. Many fixed income managers believe that income and carry look attractive on the front end of the Treasury curve as well as in select corporate credits is the more attractive part of the curve.

**Figure 7: Aust. 10 yr minus 3 yr Bond Spread**

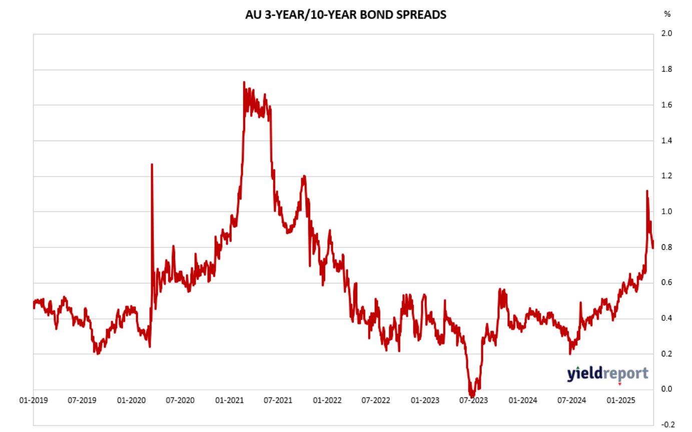
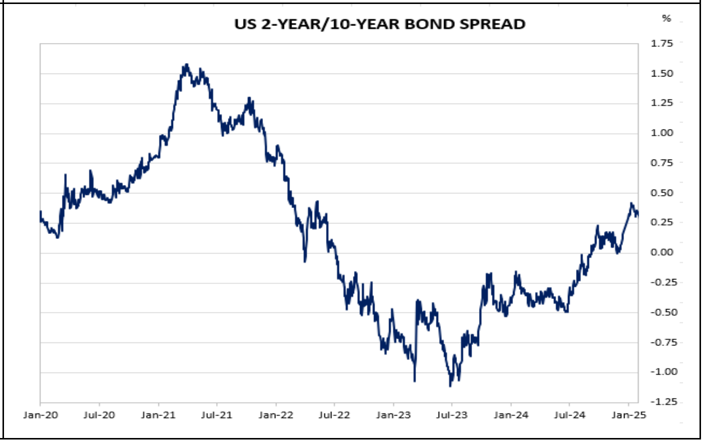



**Figure 8: US 10 yr minus 2 yr Bond Spread**




## *Corporate Bonds*

There were reasonably material increases in yield during the week in the US high yield market, reflecting the markets repricing of Fed rate cuts. By Thursday close, the high yield aggregate yield had increased 13 bps to 7.69%, the BB 12bps to 6.32%, the B 24bps to 7.84% and the CCC 15bps to 13.68%.

During the week, JP Morgan highlighted its bullish position on US high yield corporate bonds, noting the significant increase in spreads recently (lower valuations) as well as the fact that the high yield market has increased in quality over the past 10-15 years. It notes that High yield has matured over the past 10 – 15 years into a market with a larger proportion of BB-rated bonds (50% of the high yield market), increased secured debt issuance, now has lower duration (roughly 1.4 years lower since 2007) and far more conservative use of proceeds.

Despite recent market stress, credit fundamentals and technical remain solid. Credit metrics for high yield for the fourth quarter have showed modest improvements off an already strong base. High yield issuers saw its first decline in leverage in four quarters with 15 of 18 sectors experiencing improvement.

Leverage metrics remain well below the long-term average. Interest coverage has also improved for the first time in more than two years. High yield spreads (as of 4/8/25) hit their highest level since October 2023 at 453 basis points (bps). The historical median 12-month forward total return for high yield with an index OAS range between 400-500 bps is 6.2% with a median excess return of 3.7%. While volatility could continue to be elevated in the short term, historically this has been an attractive entry point for a longer investment horizon.

**Figure 9: US High Yield Bond Fundamental Index**

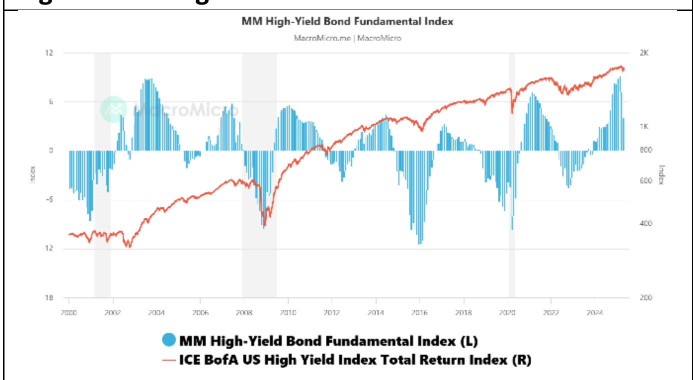
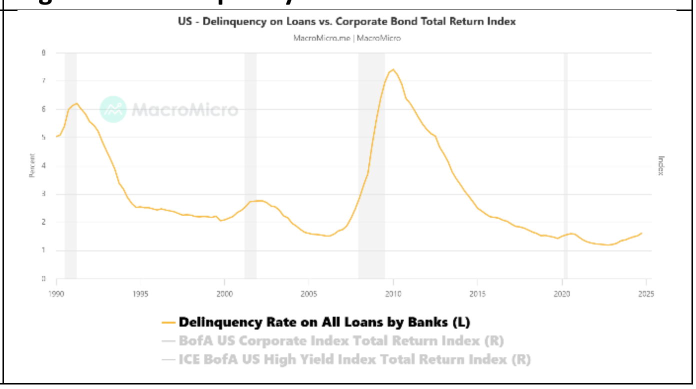



**Figure 10: Delinquency on US Loans**



In relation to Figure 1, the MM Fundamental Index for high-yield bonds is an integral index for assessing the fundamentals of junk bonds. When it goes up, the fundamentals of junk bonds are looking good. The Fundamental Index is updated with the monthly value on the last Friday of each month, and there may be subsequent changes due to data revisions for its constituent variables.

In relation to Figure 2, the US Fed surveys large commercial banks on the delinquency rates on loans and leases each quarter. As delinquency rates on loans and leases reflect the overall debt repayment capacity of businesses, delinquency rates serve as an important indicator of corporate bond defaults. The latest statistics are very solid: Delinquency Rate on All Loans by Banks (2024-Q4): 1.62%. Previous month: 1.52%.

**Figure 11: US High Yield Bond Effective Yields**

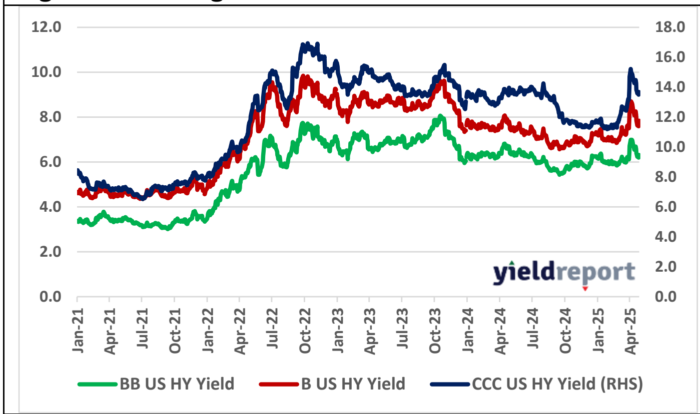



**Figure 12: US High Yield Bond OAS Spreads**

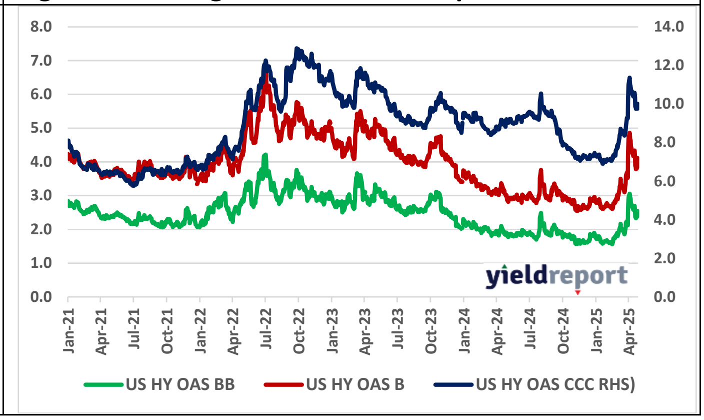



**Figure 13: ITRAXX Australia - CDS Index**

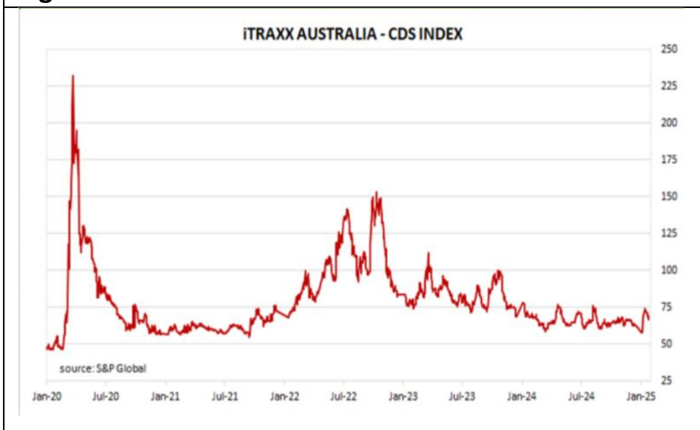
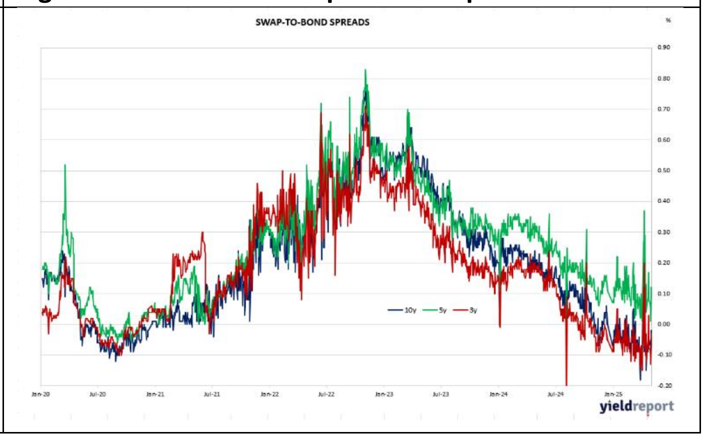



**Figure 14: Australian Swap to Bond Spreads**




## *Hybrids*

Australian hybrids were largely flat over the course of the week. There was a degree of ebb and flow, with yields declining slightly during the first half of the week before backing up slightly during the second half post the CPI release. The dynamic matched both moves in the cash and bond markets.

By week's end, notable notes included:

- Judo Capital's Capital Notes (JDOPA) offering the highest running yield of 9.50%, a high 6.50% margin, trading well above par at $111.99. And there is a reason after its poor earnings result during the week.

Latitude Financial (LFSPA) presents a unique value opportunity, trading at a discount ($96.01) while still offering an impressive 9.26% yield, supported by a 4.75% margin.

Macquarie Bank's Capital Notes 2 (MBLPC) boasts a 4.70% margin with an attractive 8.51% yield.

## *ETFs – Domestic & Global*

The inclusion of global ETFs, specifically the US and Europe, is intended to provide two types of investor insights and that are ultimately pertinent to the Australian ETF market.

Firstly, inflows / outflows data and which clearly provides a strong signal regarding investor sentiment regarding asset classes, geographic preferences or otherwise, thematic / sector preferences, and finally fear and greed levels.

Secondly, new issue ETFs reflect 'real-time' investment theme investor sentiment. i.e, what's 'hot'. Additionally, the largest Australian ETF issues are all part of large international entities. And often what ETF is issued in their home markets and, to some degree, subsequently issued in Australia.

## *ETF News – When Private Markets go Public*

**Deloitte predicts Private capital ETFs are set to take the financial services sector by storm** over the next three to five years. According to the Deloitte's 2025 Financial Services Industry Predictions report, US and European retail investors are expected to pour money into private capital, reaching as much as US$2.4 trillion in 2030 from the current US$80 billion.

This growth is set to be driven by expanding product offerings and regulatory changes that make private capital more accessible to retail investors. This includes both mutual funds and ETFs. For example, investment managers BondBloxx Investment Management and Virtus Investment Partners each launched actively managed ETFs with private credit exposure last December. State Street Global Advisors (SSGA) launched an actively managed private credit ETF in February with the aim to provide all investors with access to private markets by investing in both public and private credit such as asset-based finance and corporate lending.

Deloitte predicts that private capital within mutual funds and ETFs will be up to 15% of illiquid investment allotment and will likely be a driving factor for US retail investors' increased allocation to private assets over the next five years.

**Vanguard joins rush into private markets alongside BlackRock and State Street**. You read right – Vanguard and private markets. And collectively, the world's three largest asset managers all aiming to democratise illiquid private assets for retail investors. Vanguard's decision to create hybrid funds of public and private assets in a new strategic alliance with Blackstone and Wellington. No meaningful details, such as fees, for the new products have been announced but Vanguard will now be competing in the race with its biggest rivals including BlackRock and State Street Global Advisors to bring more illiquid private assets into the portfolios of everyday investors. BlackRock's aim, as explained in Larry Fink's latest investor letter, is to wrap infrastructure and private credit into ETFs. ETFs that invest in collateralised loan obligations (CLO's) – securitised bundles of debt that widely hold loans to private equity companies - are proliferating on both sides of the Atlantic.

So, the trend for including more complex, illiquid, less transparent assets into ETFs that carry higher fees is clearly gathering momentum. Index providers are also working hard to create new private asset benchmarks that will appeal to ETF managers. MSCI this week launched two MSCI All Country Venture-Backed Private Company indexes, the first MSCI benchmarks that can measure the performance of private markets at the company level. MSCI last year also created a series of private capital indices that track the performance of closed-end funds that hold around $11trn in assets.

**Private credit ETF achievable for DWS but CEO Hoops 'sceptical'**. Private market exposure could increase sharply in a 'negative sentiment environment'. While delivering private credit is 'conceptually' achievable for DWS, its CEO, Stefan Hoops, said he remains 'sceptical' about wrapping private assets in an ETF promising daily liquidity. To make the structure work, Hoops noted that the private securities would probably have to be blended with liquid holdings so that the issuer knew what they needed to sell in the event of outflows.

The comments were made in response to the groundbreaking private credit ETF launched recently in the US by State Street Global Advisors (SSGA) and Apollo Global Management. The SPDR SSGA Apollo IG Public & Private Credit ETF's (PRIV) private credit allocation will "generally range" between 10-35% of net assets with the weighting at the sole discretion of the portfolio managers. Apollo has a unique role as liquidity provider on the ETF – committing to provide 'executable quotations' on all private credit instruments and purchase them from the fund, up to an undefined 'daily limit', at or above the quoted price.

Despite attracting lots of attention from the industry, PRIV has fail to command significant inflows to-date. The ETF currently houses just $55m in assets under management (AUM) and no new shares have been created since 4 March.

**In Australia, Global X is preparing to launch a China technology ETF**, citing the country's shift from policy planning to delivery, stabilising fundamentals and depressed valuations, while also emphasising the critical nature of selective exposure. Ahead of the launch of the Global X China Tech ETF (ASX: DRGN), the firm said the country's years of strategic investment in manufacturing capacity, digital infrastructure and research capabilities are now translating into "operational scale" across multiple sectors. Global X emphasised the semiconductors, EV, and industrial automation in China as being particularly prospective.

**HSBC Asset Management** is poised to become the latest issuer to enter the **most crowded segment of Europe's active ETF market – Systematic Active ETFs** (what this author refers to as scientific investment strategies based on circa 50-100 signals empirically proven and statistically significant signals). The race to enter this popular segment of the active ETF market is intensifying, with Goldman Sachs Asset Management unveiling a five strong range of systematic active equity ETFs and BNP Paribas Asset Management nearing the debut its first alpha-seeking active ETFs last month. Other fund promoters are also entering the systematic active space, with DWS noting in its Q1 earnings it has three systematic active ETFs in its pipeline. In Australia, Macquarie offer a number of ETFs based on systematic active investment strategies.

The **European ETF market had its best quarter in terms of flows**, with USD93 billion of AUM in Q1 eclipsing the previous record of USD91 billion set in Q4 2024, according to Invesco's latest European ETF Snapshot. The firm writes that despite broadly flat equity returns, strong performance for commodities, particularly gold, and solid gains in fixed income markets helped push total European ETF AUM to USD2.38 trillion as at the end of the quarter.

Equity flows in European ETFs remain resilient as investors pivot to Europe. Despite market uncertainty towards the end of the quarter, the proportion of total ETF flows into equities in (80 per cent) remained in line with the 2024 average. However, the data revealed a pivot away the US towards Europe. Concurrently, appetite for US equities fell, with USUSD2.2 billion of outflows in March taking the total for the quarter to USUSD4.5 billion, less than 10 per cent of the record level seen in Q4 of last year.

**Demand for gold ETFs in Europe rises amidst price rally**. Gold was the big winner in the commodity asset class. Flows into gold ETPs have been positive for the past four months after being largely absent for most of the gold price rally before then. Gold was the best-performing asset in Q1 with a 19 per cent return, driven by the allure of its perceived "safe haven" characteristics as equity markets fell and the economic outlook became increasingly uncertain.

## *New ETF Issuance Activity*

If you examine the table below there are several distinctive trends and it's not difficult to understand why they are being issued:

- In Europe, pure long equities exposures are connected to European Defence and Emerging Markets.

- In relation to US equities exposure, including those issued in Europe, there is a distinct trend to downside exposure preservation. There are several Buy-write strategies and several Collar strategies. Under the former, a call option is sold over a long exposure, which caps capital gains at a certain level but buffers capital downside based on the option premium received by selling the call. Under the latter, the strategy involves selling a call and buying a put. Less total option premium than a buy-write (as the strategy has to fund the put) but unlike a buy-write there is a limited defined and capped downside risk (and limited capped upside). Derivate overlay ETFs providing downside preservation have been one of the more successful ETF strategies this year in the US.

- AAA CLO ETFs (actively managed) are hot at the moment both in Europe and the US and there is good reason they are. The critical factor here is that they are AAA – the highest rank in what are multi tranched securitised structures. The drawdown profile of AAA is almost negligible and very different to, say, the BB tranche. These are steady, consistent income, sleep at night products. We would like to see such products introduced into Australia but we acknowledge investor knowledge of the structure is very limited.

| **New ETF Launches: Week of 24 April – 1 May** |
|---|
| **Australia** |
| Global X is launching the Artificial Intelligence Infrastructure ETF |
| **Europe** |
| WisdomTree Enhanced Commodity Carry ETC (CRRY) |
| Janus Henderson Tabula EUR AAA CLO UCITS ETF (EUR) |
| Goldman Sachs Alpha Enhanced US Equity Active UCITS ETF |
| **USA** |
| Grayscale Bitcoin Adopters ETF (Ticker: BCOR) |
| Simplify Piper Sandler US Small-Cap PLUS Income ETF (Ticker: LITL) |

| New ETF Launches: Week of 17 – 24 April |
|---|
| **Australia** |
| Global X is launching the Artificial Intelligence Infrastructure ETF |
| **Europe** |
| First Trust launches First Trust Vest US Equity Buffer UCITS ETF – April (FAPR) |
| Robeco adds active emerging markets equity to ETF line-up |
| KB Asset Management to launch KB RISE US Natural Gas Value Chain ETF tracking the Solactive index |
| HSBC Asset Management launches emerging market equity strategies for UK investors |
| Global X is launching the Artificial Intelligence Infrastructure ETF (ASX: AINF) |
| First Trust launches April S&P 500 buffer ETF |
| Robeco unveils active emerging markets ETF |
| BNP Paribas AM to launch Europe defence ETF |
| **USA** |
| Avantis Investor launched the Avantis Credit ETF |
| YieldMax launched the YieldMax Target 12 Real Estate Option Income ETF |
| Harbor Capital Advisors launched the Harbor Transformative Technologies ETF |
| Roundhill Investments launched the Roundhill Magnificent Seven Covered Call ETF |
| First Trust launched the FT Vest U.S. Equity Max Buffer ETF |

## *Listed Investment Companies & Trusts*

In LIC/LIT land, the big news of the week was L1's proposal to buy 75% of Platinum. Should a merger eventuate, the combined business would oversee $18 billion and, based on Platinum's share price, have a valuation of about $1.3 billion. While Platinum accounts for the majority of funds at around $10.5 billion, the proposed 75 to 25 per cent split in favour of L1 Capital reflects its better growth prospects and performance. Not to mention the trend of a material decline in Platinum FUM in recent years.

L1 stated that it expects the combined business to benefit from improved resourcing and capabilities across investments, client service and operations, as well as increased diversification across investment strategies and distribution channels. Platinum, along with Magellan, were pioneers in international equities strategies in the LIC/LIT space but in recent years has recorded a marked decline in FUM (from circa $25bn in 2019 to circa $10bn currently), and partly due its relatively lower performance which in turn is partly due a relatively low exposure to US equities and in particular the Mag 7. Hardly Platinum's 'fault' – it is a truly diversified and global mandate. Its performance had in actual fact been relatively true-to-style.

The acquisition reflects a number of broader trends.

Firstly, active equities managers have historically really struggled to outperform passive strategies. In fact, over 3-year rolling periods they tend to underperform circa 75% of the time, according to S&P SPIVA data. They particularly underperform in solid Beta markets, and, for e.g., they are not permitted to go circa 35% portfolio exposure to the Mag 7 (as per the S&P 500). Essentially, active equities strategies have been sitting ducks through no fault of their own. In contrast, while L1 is an active equities strategy, it a long/short strategy – a strategy that historically generates decent alpha, or at latest the Top Quartile of managers do.

Secondly, the Australian LIC/LIT sector has been undergoing a marked consolidation / rationalisation for a good 5-7 years now. Many smaller LICs have converted to either an active ETF or to an unlisted managed fund, and have done so to annual persistent discounts to NAV. Some have been acquired by other LICs/LITs – think Regal acquiring VGI and PM Capital and WAM acquiring several LICs.

The Australian LIC sector has really struggled in recent years bar the following strategies: private debt LITs; alpha seeking long/short strategies; particularly good long-only equities strategies, such as WAM Capital; and, finally the old-school LICs like AFIC.

## *About YieldReport - Your Income Advantage*

YieldReport is Australia's leading online data and research platform for interest rate markets, securities and products that focus on fixed income and yield generation. YieldReport provides advice, news review, analysis and insights on what's shaping the yield curve and fixed income markets. It also provides a great source of reference for pricing and performance data on yield generating investment opportunities including cash, term deposits, government and semi-government bonds, managed funds, ETFs, corporate bonds, floating rate notes, hybrids as well as other yield instruments. YieldReport insights and analyses are designed to help anyone managing money – whether it be their own or whether they sit on a finance committee, board etc. – to make informed decisions about where interest rates are going and to have access to the best rates and latest performance data available.

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