yieldreport Weekly

Your Income Advantage

5th May - 9th May 2025

Overview of the US Equities Market

High Stakes? Well, it's happening at **Geneva**. Meanwhile, **the Fed** is not really sure where tariffs are going to land. They are stuck. **The Fed is on ice**. They really can't do anything and is likely to just take a step back. They're worried about the risk of stagflation. The recessionary risk is still 60%. **The question is how long the hard data can hold up**.

Wall Street ended the week on a more cautious note, with stocks and bonds fluctuating as the world's two largest economies got ready to kickstart their trade negotiations. Over the course of the week, the **S&P 500** was down 0.5%, the **Nasdaq 100** down 0.2%, and the **Dow Jones Industrial Average** down a similar 0.16%. The US 10-yield creeped a tad higher, but the 2-year slipped, and **the curve steepened even more**. And why wouldn't it. And what happens in the US at the moment happens in Australia.

The **S&P ASX 200 Index ended flat**. On fixed income, Australian markets continue to price in a 25bps rate cut by the Reserve Bank of Australia at its upcoming meeting on May 20th, amid signs of easing inflation and weaker consumer spending. Investors are also anticipating further cuts in July and August, taking rates to a floor of 3.25%, with some expectations that it could fall to 3.0% or below by year-end.

The **US yield curve continued to steepen**. With the expectation of a slowing economy and the Fed potentially cutting rates this year, you saw the lower end of the yield curve, the shorter end being driven down, but decoupling from that was the longer end. In fact, if you look at the 10 year the market is actually more than 20bps higher this the beginning of April. Even this week, despite the treasury secretary heading over to Beverly Hills (Milken Conference) talking to investors and trying to create some calm in that market, we've still seen a little bit of a sell off.

The Treasury market had a **liquidity scare** – but there is still **a wall of money for corporate bonds**. The technicals are not only strong – they are stronger than they have been. Most of the issuance in the last few years has been refinancing. Meaning? The high yield market has not expanded, yet there, **mainly on account of ETF growth** – money coming in. **The consequence? Spreads remain tight**, and in actual fact, they are too tight for the economic risks. Once upon a time, you could look at the bond market as a reliable guide.

Looking at the odds of a Fed rate cut in July – that tapered this week. A week ago we were at four cuts this year, now we are at 2.7. We'd call it three. Bond managers are really only buying the 5-year. Apart from everything else, the volatility at the long-end has hardly been 'safe haven'.

By Friday, investors refrained from making riskier bets on speculation that while discussions between Chinese and American officials could represent a diplomatic icebreaker, a comprehensive commitment would only come to fruition after several rounds of talks. That was in contrast to **Thursday**, when Trump announced an agreement with the UK.

On Thursday, it was **Buy on Dips, Sell on Rips**. Because that is the Moniker. **A Trader's Market?**. **Is this nothing but a fool's rally?** Happy Friendshoring? So, the UK sets an agreement. And a risk-on wave enveloped Wall Street.

The **steep recovery in equities over the past two weeks is typical of bear-market rallies**, and the erratic swings mean almost every investor will experience pain whichever direction the market suddenly moves. Following a historic winning run for stocks, Goldman Sachs Group Inc. strategists say current valuations leave little room for the recent rally to continue. For JPMorgan Chase & Co. strategists, US assets are "not a good place to hide." At HSBC, Max Kettner remains tactically cautious as "fundamentals remain dire." So, what are we left with? Despite that sage advice, where else is the market going. It's not a problem until it becomes a problem. Well, I'm not the marginal buyer. Watch the Dollar and Watch the Bond Market.

Let's be honest. If you know what's going on in the markets, then you're the only one. Not Public Markets. Not private Markets. I don't see safety.

Here's a Bullish View. During 2022, 2023, and 2024, most economists and investment strategists expected that the dramatic tightening of monetary policy would cause a recession. They observed that the inverting yield curve and the falling Index of Leading Economic Indicators were confirming this outlook. That recession was the most widely anticipated recession of all times. It could be back in 2025. This time, the cause of the widely anticipated downturn is Trump's Tariff Turmoil.

The odds then shot up dramatically, especially after April 2 ("Liberation Day"), reaching 64% on April 8. They fluctuated around 55% after Trump postponed for 90 days the reciprocal tariffs that he had announced on April 2 for all countries with one notable exception: China's tariff remained 145%. The odds of a recession rose to 66% on May 1 following last week's batch of weak economic indicators (i.e., consumer confidence, ADP payrolls, M-PMI, and jobless claims). The odds fell to 60% on Friday, May 2, following the release of a stronger-than-expected employment report for April.

Lowering odds of a recession: China and the US both may be ready to suspend their tariffs on each other while they negotiate a trade deal. In other words, both sides may be starting to blink. Neither side can bear the pain of a trade war, which might be more painful for China's economy than America's economy. On the other hand, Americans have less tolerance for pain than the Chinese

Trump will likely declare victory in his trade war with the rest of the world. By the end of the 90-day postponement period of his Liberation Day reciprocal tariffs, the US is likely to have signed numerous agreements with America's major trading partners. Stragglers might come around during a second 90-day postponement period. Trump needs to put the trade issue behind him to reduce the odds of a recession, which would harm the Republicans' chances of holding onto their slim majorities in both houses of Congress.

Trump also needs to get this issue resolved quickly now that numerous court cases have been filed challenging his constitutional authority to impose tariffs under his claim that they are warranted by a national crisis that he declared.

Meanwhile, the **Index of Coincident Economic Indicators (CEI)** has been rising to new record highs since then through March! Some are betting on the resilience of consumer spending, which has been boosted by the spending of retiring **Baby Boomers**. We had been concerned recently about the negative wealth effect on consumption because of the drop in stock prices. Some are less concerned given the subsequent rebound in stock prices. Some are also betting on business spending to remain resilient.

Overview of the Australian Equities Market

On Thursday, data showed continued weakness in Australia's industrial sector in April, with trade and election-related uncertainties weighing heavily on manufacturing, particularly in export-exposed areas.

During the week on Thursday, National Australia Bank surged 1.9% after posting better-than-expected first-half cash earnings. Meanwhile, Macquarie Group rose 0.7% even after regulators launched new enforcement actions against its banking unit over significant compliance breaches.

And on Friday, the S&P/ASX 200 Index rose 0.2% to close at 8,192 on Thursday, extending gains from the previous session as US President Donald Trump hinted at a major trade deal with a "big" country. Subsequently known as the UK. Trump said he would not lower tariffs on China as a condition to begin trade negotiations ahead of US-China talks in Switzerland this weekend. Elsewhere, the US Federal Reserve held interest rates steady, with Fed Chair Jerome Powell signaling a cautious approach and ruling out a preemptive rate cut in response to the potential economic impacts of tariffs. NAB kept rolling (1.4%).

Overview of the US Treasuries Market

Over the course of the week, the **yield on the 10-year US Treasury notes** increased 7bps to 4.39% while the yield on the 2-year US Treasury note was also up 8bps to 3.91%. This week was a reset – a reset on interest rate expectations.
On Friday, treasury yields surged to multi-week highs overnight as traders reduced expectations of a rate reduction at the Fed's next meeting in June. They now assign a 15% chance of a 25 bps move, compared to about 30% on Tuesday and more than 50% a week ago. **Wow, US treasuries – safe harbour??? US corporate bonds, which we will get on to, look like a World of Calm.**

We said it last week, and say it again - 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**.

On Thursday, bond traders reset with the Fed, lowering interest rates three times this year despite the central bank leaving borrowing costs on hold and flagging mounting risks of both higher inflation and unemployment. "It's not a situation where we can be pre-emptive because we actually don't know what the right response to the data will be until we see more data," Powell said. The Fed is unlikely to lower the cash rate at its next meeting.

After piling into short-term Treasuries, anticipating the Fed would start easing policy as soon as next month to contain the fallout, they reversed course. Two-year yields shot up, staging the biggest two-day jump since October, and futures traders started pricing in what Fed officials have been consistently trying to drive home — that they will remain in wait-and-see mode until there's more evidence that the economy has turned. With inflation being above the Fed's target, tariffs which can move prices higher and a still solid labour market, the Fed is unlikely to do anything. They are data dependent, and the data could turn weaker by the time the Fed meets mid-June.

Re Fig 2, it'd be unwise to dismiss the possibility of a recession. There could still be supply disruptions resulting from the still unresolved trade war with China. Regional and national business surveys show weakening economic activity and rising prices during March and April.

Overview of the Australian Government Bond Market

Over the course of the week, Australia's 10-year government bond yield rose circa 6 bps to 4.33%. **The markets are repricing recession risk**.

On the domestic front, markets continue to price in a 25bps rate cut by the Reserve Bank of Australia at its upcoming meeting on May 20th, amid signs of easing inflation and weaker consumer spending. Investors are also anticipating further cuts in July and August, taking rates to a floor of 3.25%, with some expectations that it could fall to 3.0% or below by year-end.

Concluding Remarks

A market that was biding time. And biding for What Geneva delivers. Or doesn't. There is a **wall of money for US and Australian Corporate Bonds**. And it has been building for years, mainly on account of private debt – it's called eating issuance. Here's the thing – corporate debt spreads do not reflect the risks to outlook. Now, is that about to change in the foreseeable – unlikely. But be aware.

Charts of the Week

Figure 1: US Equities Sector Performance

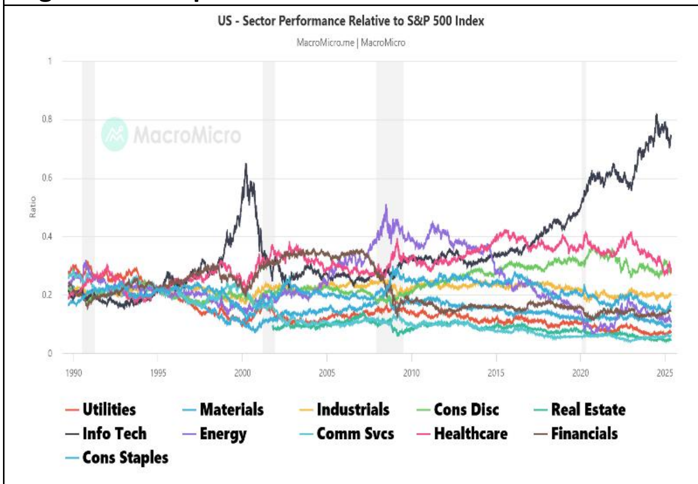
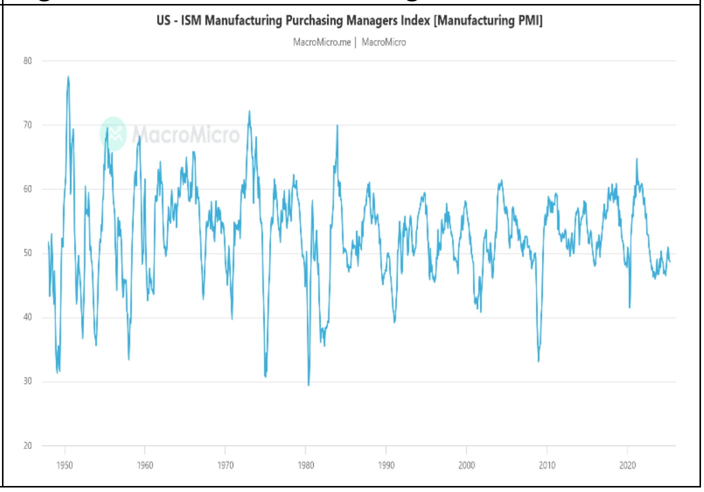


Figure 2: US - ISM Manufacturing PMI Index



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

A bunch of sentiment this week, bar US retail sales. A we finally seeing Soft move into Hard data. Watch that read. Tick tock.

Major Economic Releases for the Week ended 2 May, 2025				
Date	Country	Release	Consensus	Prior
Tuesday, 13/5	Australia	Westpac Consumer Sentiment	n/a	90.1
Tuesday, 13/5	Australia	NAB Business Survey April	Multiple	Multiple
Tuesday, 13/5	US	NFIB Business Sentiment	n/a	97.4
Wednesday, 14/5	Australia	Wage Price Index	3.2%	3.2%
Thursday, 15/5	Australia	Labour Force Survey	Multiple	Multiple
Thursday, 15/5	US	Retail Sales	n/a	1.4%
Friday, 16/5	US	UoMich Consumer Sentiment	n/a	52.2

Cash

The next RBA Board meeting and Official Cash Rate announcement will be on the 20th May. As at Friday 9 May, the ASX 30 Day Interbank Cash Rate Futures May 2025 contract was trading at 96.005, indicating a 54% expectation of an interest rate decrease to 3.60% at the next RBA Board meeting. That's a little shy of the 56% last week. Because economic, and corporate, was solid all week – here and in Australia.

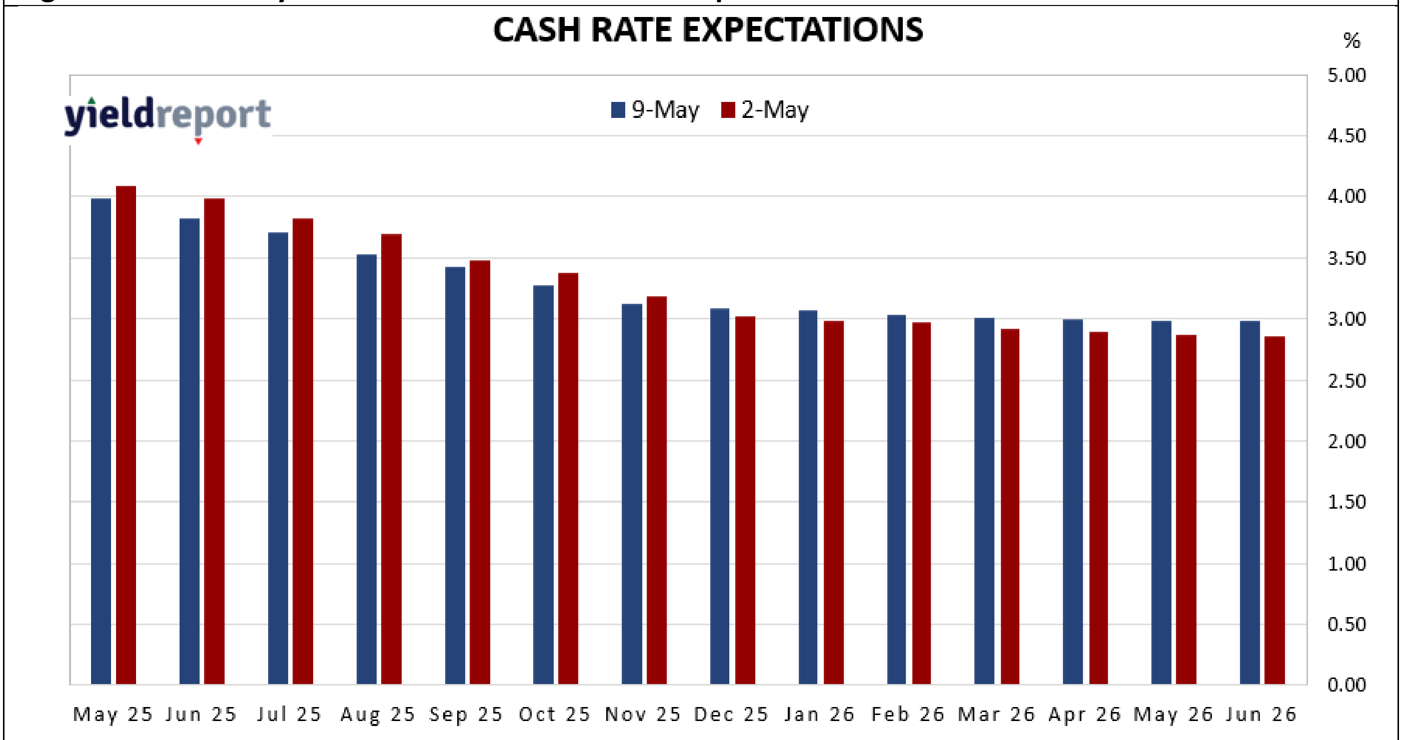
Nevertheless, the RBA is expected to break away from the US Fed and lower the cash rate this month because the domestic economy is acutely exposed to the prospect of a global recession and inflation is markedly slowing, even as the full impact of US tariffs is yet to be felt. While Australia is experiencing a clear disinflationary trend, the same cannot be said for the US, where inflation has remained sticky since mid-2024.

And in that context, market participants and economists are convinced **the RBA will break with the Fed and resume its easing cycle** at the next policy meeting on May 20 – a notable departure from the US central bank, which typically sets the tone for global monetary policy. The increasing downside risk to activity and global growth is consistent with an RBA that cuts rates with a bit of insurance to global developments.

Domestically, inflation has been slowing, and most importantly, **services inflation slowed**, and that's the sticky part that has made the RBA reluctant to cut. Moreover, the domestic inflation outlook has brightened following Trump's 145% tariff on Chinese goods. It's entirely possible that the combination of weaker activity, coupled with disinflationary forces from the redirection of trade and goods, particularly from China, benefits Australian inflation to some degree. We will see.

US bond markets are currently pricing in between two and three quarter-percentage-point rate cuts by the Fed this year, starting in July. Meanwhile, in Australia, money markets, after the fully priced in May 30 cut, are expecting at least three further reductions anticipated thereafter.

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



Term Deposits

ANZ, ING reveal new term deposit rates. A boost to three month rates at ING and notable new rates from AMP were rare highlights in another mostly bleak week for Australian savers. These weekly term deposit rate wraps are starting to feel a bit like **a casualty list**. ANZ is the latest major bank to cut back, taking its top rate level with CBA and NAB, while several of the higher rates out there were also curbed. Term deposit rates continue to fall away, so if you're interested in a fixed term investment, it might be a good time to get a move on and lock on one of the few strong rates still remaining.

ANZ cuts rates by up to 10 bps. With these latest cuts, the top TD rate at ANZ drops to 4.20% p.a., the same as Commonwealth Bank (for 10 months) and NAB (for seven months). The highest rate available among the big four is at Westpac, where existing customers who open an 11 month term online can earn 4.30% p.a..

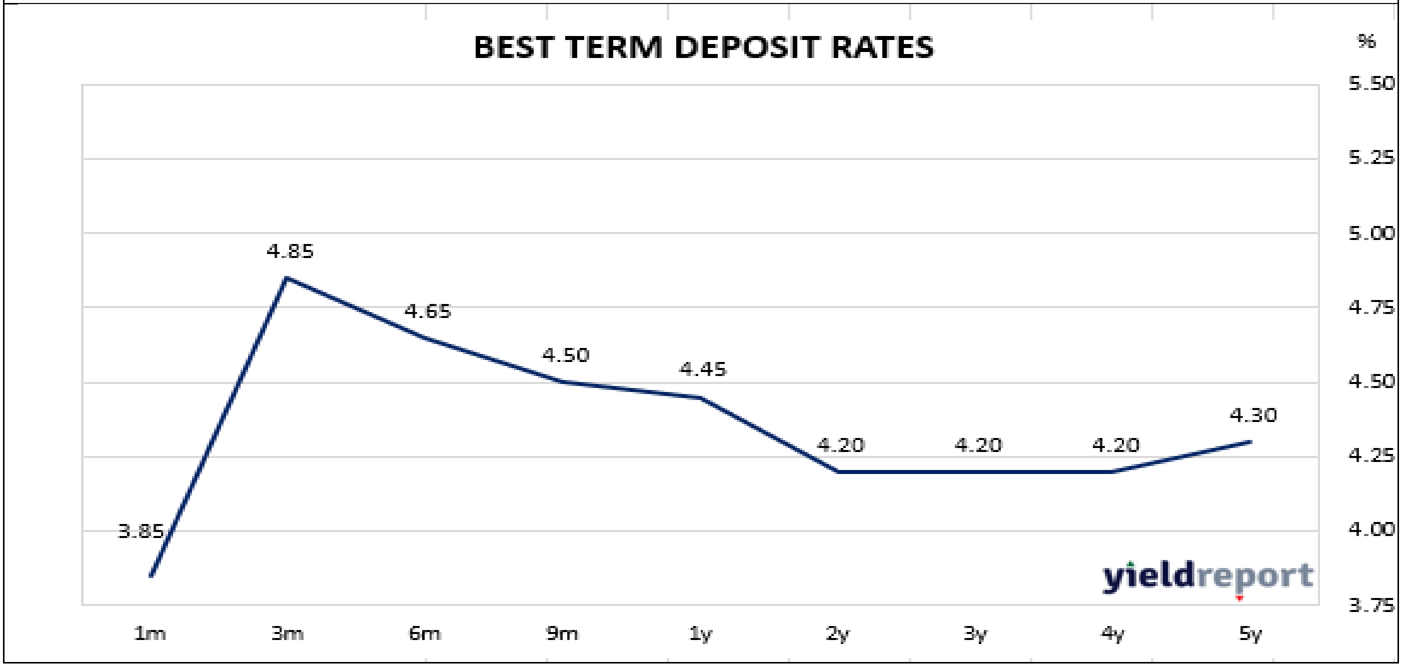
Big hitters cut rates. The big banks have tended to offer significantly lower rates than many smaller outfits, but this week saw three of those heavy hitters trim rates this week. Gateway Bank cut rates by up to 15 bps, including its three month rate which was previously higher than any in our database, which falls to 4.60% p.a. Its top rate is now 4.75% p.a. for six month terms, which is 0.10% behind from Credit Union SA, the highest in our database. Both Community First Bank and Illawarra Credit Union cut six month rates from 4.80% p.a. to 4.65% p.a., 0.20% back from Credit Union SA.

ING varies rates by up to 0.25%. ING seemingly pivoted its term deposit strategy this week, shifting its marquee rate from six months to three months. Its new three month rate of 4.35% p.a. is higher than any of the other 10 biggest banks in Australia by household deposits. However, Suncorp Bank remains the overall leader among the 10 big boppers, with a 4.40% p.a. top rate on four month term deposits and 4.55% p.a. for six months.

Other movers:

- The Mutual Bank cut rates by up to 30 bps
- Heritage Bank cut by up to 40 bps
- Great Southern Bank cut by 10 bps
- Summerland Bank cut rates by up to 20 bps
- Bank of Us cut rates up to 15 bps

Figure 6: Highest Term Deposit Rate by Term



Government / 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

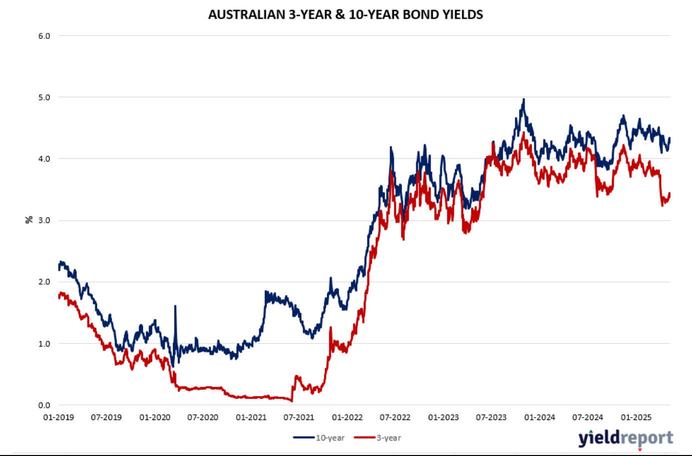
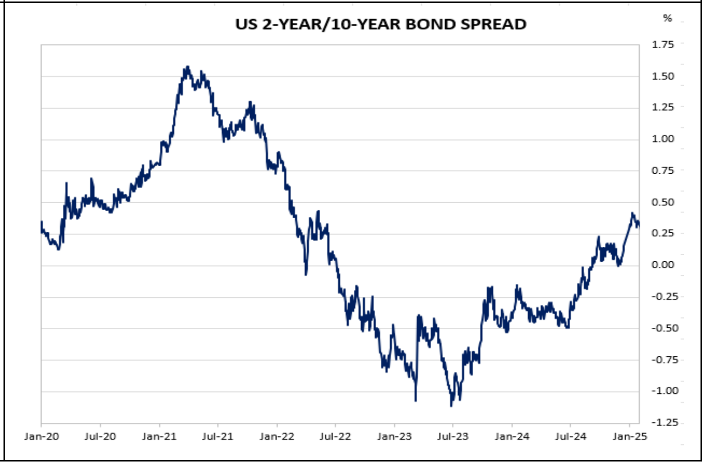


Figure 8: US 10 yr minus 2 yr Bond Spread



Corporate Bonds

Corporate bonds moved slightly higher. By Friday close, the high yield aggregate yield had increased 6 bps to 7.75%, the BB 4bps to 6.36%, the B 4bps to 7.88% and the CCC 2bps to 13.70%. It was actually a de-risk week.

There is a mountain of money going into new issuance. Forget about Treasury ructions. Liquidity in US high yield has never been stronger. And there is a reason for that, and its call private debt. But, despite recent market stress, credit fundamentals and technicals 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

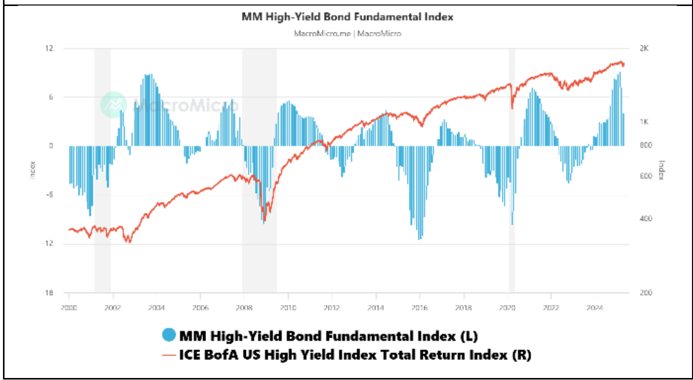
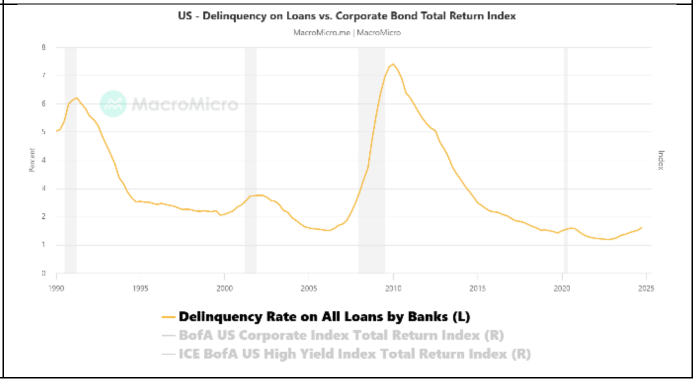


Figure 10: Delinquency on US Loans



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

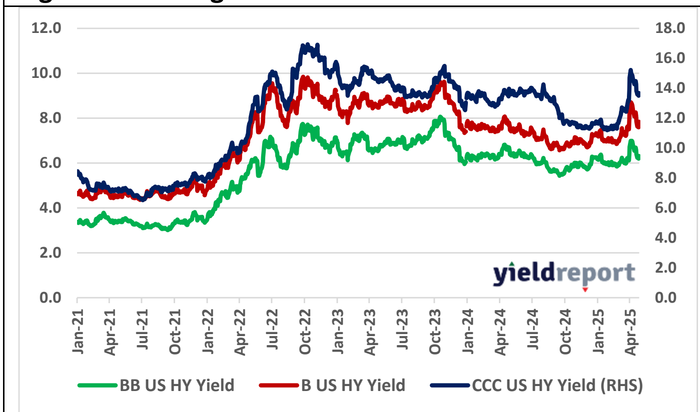


Figure 12: US High Yield Bond OAS Spreads

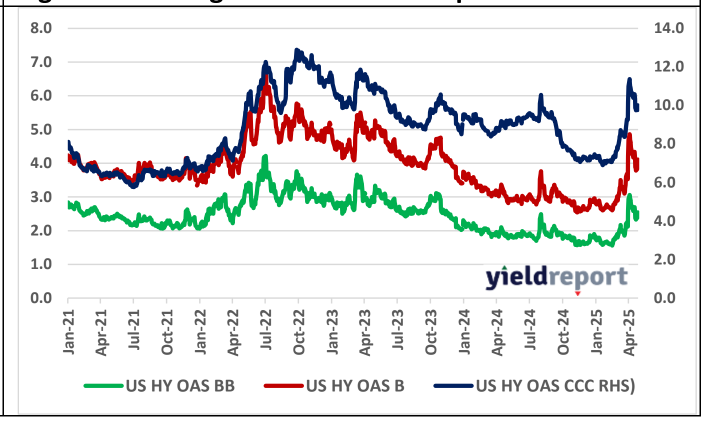


Figure 13: ITRAXX Australia - CDS Index

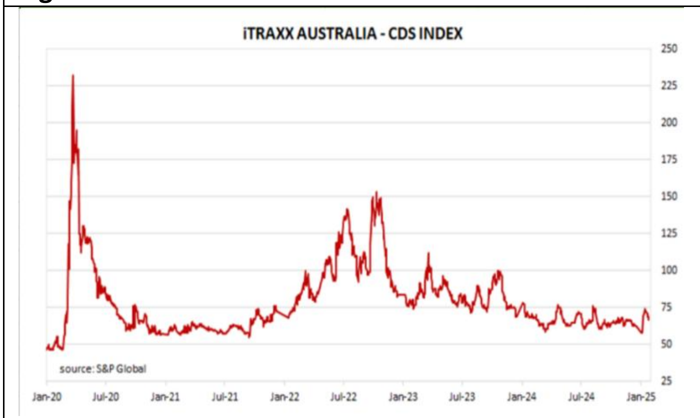
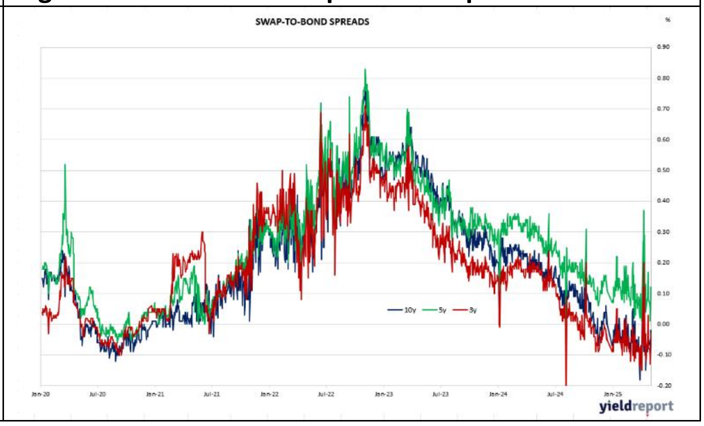


Figure 14: Australian Swap to Bond Spreads



Hybrids

Australian hybrids inched up 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

Let's look at the US, where there was 19 new ETF offerings launched in the past week, each with a distinct value proposition for investors. Detailed below are a few of the launches that we believe are pertinent to Australian investors in terms of market dynamics.

Summit Global Investments launched the SGI Enhanced Market Leaders ETF, an actively managed solution that seeks to **deliver enhanced income** and capital appreciation by investing in stocks of companies it considers "market leaders". The portfolio focuses on companies with consistent leadership in earnings, debt, and valuations, and adjusts positions based on changing risk/return profiles and idiosyncratic risks. The fund's active strategy aims to generate an enhanced yield by an options overlay. Options overlays in the US are the biggest theme going. Called in downside preservation.

VistaShares launched the VistaShares Target 15 USA Quality Income ETF, an actively managed solution offering investors a core equity portfolio of U.S. based companies that **exhibit strong quality financial characteristics**, while leveraging the experience of the portfolio management team to seek to **generate high monthly income**. The strategy involves two components: (1) investing in a portfolio of equity securities that exhibit strong quality characteristics defined by high profitability, low earnings variability, and low leverage; and (2) generating income through an options portfolio. Call that Qual and Low Vol over Growth. Factors matter.

PGIM Investments launched the PGIMS&P500MaxBufferETF-May, which seeks to provide investors with returns that match the price return of the SPDR S&P 500 ETF Trust up to a predetermined upside cap **while seeking to maximise the downside protection** against the SPDR S&P 500 ETF Trust's losses over the one-year target outcome period. **You seeing a theme.**

Astoria Portfolio Advisors launched the Astoria Dynamic Core US Fixed Income ETF, an actively managed solution that operates as a 'fund of funds' and allocates its assets among underlying US fixed income funds that invest in a variety of fixed income sectors, including, but not limited to, US Treasuries and other debt securities issued by the US Government and its agencies and instrumentalities, corporate bonds, mortgage-backed and asset-backed securities, municipal bonds, high-yield bonds and private credit offerings.

ETF Shares, the emerging new boy on the Australian ETF block, has announced a collaboration with index provider Solactive supporting the launch of three ETFs designed to offer local investors differentiated access to US equities. The firm writes that each ETF benchmarks a distinct Solactive index, delivering focused exposure to American companies characterised by strong financial fundamentals, technological leadership, and transformative innovation.

The three ETFs are the ETFS US Quality ETF, the ETFS US Technology ETF and the ETFS Magnificent 7+ ETF. The firm writes that amid rising uncertainty about the US economic outlook, investors are turning to companies with consistent free cash flow and strong quality fundamentals, as these firms tend to have resilient business models, the ability to self-fund operations, and the financial strength to reward shareholders while navigating market volatility.

Timo Pfeiffer, CMO at Solactive, says "These traits help reduce exposure to interest rate risk and create a more stable investment profile. To capture this, the Solactive United States Quality Cash Flow Index is built from the Solactive GBS United States 500, a liquid and tradable universe of the 500 largest U.S. companies. From this universe, only companies with at least 10 consecutive years of positive free cash flow are considered. These are then ranked by a combined quality score, and the top 100 are selected. Final index weights are determined by each company's free-float market capitalisation adjusted by its quality score. "For Australian investors, whose domestic equities are largely concentrated in financials and commodities, these three indices offer differentiated exposure to resilient and innovative US sectors, enhancing diversification across both growth and quality dimensions."

ARK Invest Europe has published its quarterly thematic update detailing Q1 2025 European Thematic ETF Flows. The firm writes that, using data from ETF Book and based on ARK Invest Europe Megatrend Sub Theme Classification, Defence ETFs saw the most net inflows of USD4.184 billion, representing 72 per cent of the total net inflows (USD5.776 billion) to European ETFs in the first quarter of 2025. **Investor positioning in defence** remains robust. The demand for next-gen military and aerospace technology continues to attract capital, with defence-tech firms benefiting from increased procurement budgets globally. **Artificial Intelligence ETFs rank second** with USD678 million in net inflows. AI remains the defining technological revolution, with investor appetite fuelled by relentless innovation in large language models, robotics, and autonomous system. **Meanwhile**, Clean Energy ETFs posted the weakest Q1 2025 net flows, with a loss of USD227 million. The firm writes that capital continues to exit clean energy ETFs as investors adjust to a new global policy landscape. Investors are redirecting capital toward solutions like nuclear energy, grid modernisation, and energy efficiency, which are less dependent on policy incentives. EV and Battery Tech ETFs recorded the second-worst net flows at -USD136 million. Near-term headwinds—ranging from subsidy rollbacks to a cooling demand environment—have weighed on sentiment, the firm writes.

New research covering equity and fund managers across Europe and the US, commissioned by Carne Group, reveals more than 28% of those surveyed believe ETFs are critical to their company's long-term growth and prospects. A further 69% say they have an important role to play. Respondents expect ETFs to account for even greater proportions of their AUM in the next five years. Looking to 2030, 49% of fund managers believe that between 15% and 20% of their company's AUM will be held in ETFs.

Global X ETFs Europe has partnered with the index provider STOXX to create a **new covered call** ETF that will track the performance of the EURO STOXX 50 index while also using derivatives to generate an income stream for investors. The At The Money index which will track the Eurozone blue-chip company benchmark and simultaneously sell call options based on the same index to generate income. **Seeing the Theme.**

Europe: A busy week in the non-North American ETF launches brings a wide variety of ETF and index launches, featuring **covered call strategies**, travel, crypto and US equities.

- STOXX and Global X ETFs Europe launch Global X's EURO STOXX 50 Covered Call UCITS ETF
- US Global Investors launches active travel ETF (TRIP)
- MerQube partners with AuguStar Retirement to develop FIA indices
- CSOP Asset Management launches Hong Kong equity ETF
- Franklin Templeton launches US Mega Cap 100 ETF tracking the Solactive US Mega Cap 100 Select Index
- Melanion Capital's Bitcoin Equities UCITS ETF listed on Xetra for German investors
- ETF Shares debuts three US-focused strategies in Australia tracking Solactive indices
- Amundi and STOXX collaborate to launch ETF investing in the European defence sector

New ETF Launches: Week of 1 May – 8 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
Summit Global Investments launched the SGI Enhanced Market Leaders ETF
VistaShares launched the VistaShares Target 15 USA Quality Income ETF
Regan Capital launched the Regan Fixed Rate MBS ETF
Defiance ETFs launched the Defiance Leveraged Long + Income MSTR ETF
PGIM Investments launched the PGIMS&P500MaxBufferETF-May
Astoria Portfolio Advisors launched the Astoria Dynamic Core US Fixed Income ETF
New York Life Investments launched the NYLI MacKay Muni Short Duration ETF

Listed Investment Companies & Trusts

Discounts compressed slightly this week. The big news still relates to last week - 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.

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