yieldreport Daily

Your Income Advantage

27th May 2025

Overview of the US Market

US markets were closed on Monday for the Memorial Day holiday but the Futures market remains open and the newsflow, particularly in this environment, doesn't stop.

European stocks climbed along with US equity futures after President Donald Trump **extended a deadline on aggressive euro area tariffs**, reinforcing a pattern of leaving markets guessing by making trade threats before backtracking. The Stoxx Europe 600 index erased Friday's losses sparked by Trump's threat of 50% tariffs on the European Union. The US President later said he had agreed to delay the date for the levies to July 9 from June 1. **Contracts for the S&P 500 and the Nasdaq 100 advanced more than 1%.** A gauge of the dollar hovered near its lowest level in almost two years. Cash Treasuries didn't trade due to holidays in the UK and US.

The tariff war has returned as the major driver once again after concerns about Trump's proposed tax cuts, and their impact on the US deficit, churned markets much of last week. Trump's whiplash moves have increased uncertainty in markets and his broadside against Europe on Friday, followed by a backtrack, was a stark reminder of the president's volatile policy making. Call it the **'Trump Pattern', and which is increasingly seen as a successful strategy for risk-tolerant investors**. That said, the fact is that the rebounds that follow these selloffs are losing strength as we go on. Investor fatigue.

European Commission President Ursula von der Leyen stated Europe is ready to advance talks swiftly and decisively," but "a good deal" will need "time until July 9." That's the date on which Trump's 90-day pause of his so-called reciprocal tariffs had originally been set to end.

The trade tensions and weak demand for US assets are showing up in the dollar. **Bloomberg's dollar spot index was track for its lowest close since July 2023**, while the greenback is at or approaching key levels against a host of currencies including the euro, British pound, yen and Swiss franc. Enthusiasm has faded for the world's reserve currency this year. Speculative traders remained bearish on the dollar but trimmed their short positioning to $12.4 billion in the week ending May 20 from $16.5 billion in the week prior, according to CFTC data reported Friday.

A key event this week will be **Nvidia Corp.'s results on Wednesday**. The chip-making giant is seen as a bellwether for so called growth stocks and the sustainability of the artificial intelligence boom. Its outlook will be crucial given macro risks and tariff uncertainty.

Investors are also gearing up for the Federal Reserve's preferred inflation measure, the **US personal consumption expenditures (Core PCE) price index** excluding food and energy, which will be released Friday. The April reading is forecast to rise 0.1% based on consensus expectations.

To keep it really simple, in this environment: **What are the Bulls Saying?** They're saying, look, earnings growth this quarter, 13% compared to the same quarter last year, and the Fed is still interested in cutting rates, so it's okay. **And what are the Bears Saying?** High valuations and coupled with rising yields that becomes more worrisome. Slowing growth. We started the year at 54 on the PMI composite, now we're at 51. We all know the soft data's cratered, so slowing growth and continued geopolitical uncertainty.

Overview of the Australian Market

Australian shares dipped at lunchtime as news that American President Donald Trump had delayed a sweeping 50% tariff on EU imports did little to settle the cautious mood among traders. The **S&P/ASX 200 Index** slipped 0.1% – by just 10.4 points – near 1pm after swinging between gains and losses. Six of 11 sectors were in the green, with technology leading gains. The All Ordinaries also slipped 0.1%.

The American president had suggested late last week that the steeper tax could take effect this week, sending the Nasdaq plunging 1% and the US dollar to its lowest level since 2023 against a basket of currencies.

In Australia, shares traded in a narrow range in a cautious start to the week. WiseTech was an exception, up more than 5.7% after the technology giant announced its largest acquisition: Texas-based e2open for $3.25 billion.

Westpac and Commonwealth Bank have agreed to keep **Healthscope's 37 private hospitals operating even as lenders call in receivers to take control of the company**. The country's second-largest private hospital operator said CBA would contribute $100 million in new funding to keep the medical facilities open. Westpac has separately agreed to provide working capital to allow receivers to sell the business. A syndicate of banks and hedge funds that control Healthscope's $1.6 billion in debt **voted on Monday to put the company into receivership** after being handed control by its previous owner, Canadian asset management giant Brookfield, earlier this month.

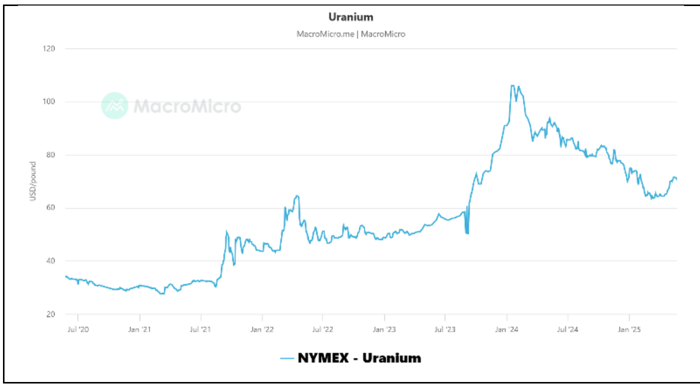
Uranium stocks extended Friday's rally after Trump signed an executive order intended to jumpstart the US' nuclear energy industry. Boss Energy leapt 9.3% and Deep Yellow by 17.3%. Paladin Energy was up 14.2%.

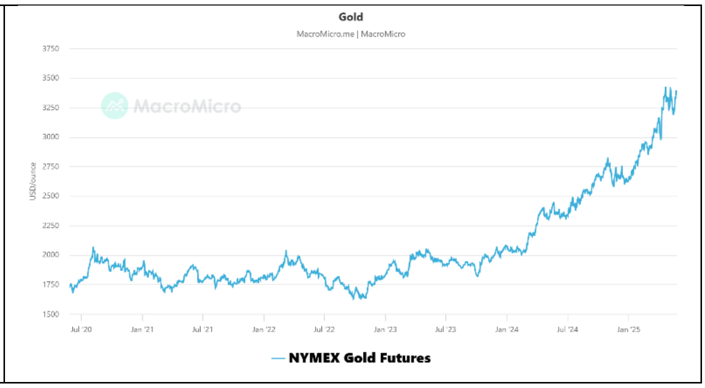
Gains were offset by losses from utilities as Origin Energy dropped 4.5%. That was after the company told investors that earnings from its stakes in Australia Pacific LNG and Octopus Energy would be lower than expected.

A gauge of the dollar slid toward its lowest level in nearly two years after US President Donald Trump's decision to postpone higher tariffs on the European Union boosted other currencies with strong links to global trade. The Bloomberg Dollar Spot Index fell as much as 0.4 per cent on Monday and is headed toward a level unseen since July 2023. Currencies including the Australian and New Zealand dollars as well as the euro surged after Trump said he would extend the deadline for the EU to face 50% tariffs until July 9.

Finally, Citi has raised its short-term target for gold prices to $US3500 an ounce after US President Donald Trump's threat to impose higher tariffs on EU imports prompted a spike in demand for the precious metal. Citi analysts said they expect prices to consolidate between $US3100 and $US3500 over the next few months "as the world digests US tariff policy changes, as geopolitical risks remain high, and as US budget and growth concerns remain elevated".

Figure 1: NYMEX Uranium Price USD/pound	**Figure 2: NYMEX Gold Futures USD/ounce**





Overview of the US Bond Market

US markets were closed on Monday due to the Memorial Day holiday. But what is going on in **the Japanese bond market because, trust me, these developments could develop into a major risk to US treasuries**.

JGB yields surged last week as BOJ shifted policy gears, exposing cracks in market liquidity and testing investor confidence. With fiscal health intact but **global carry trades at risk, Japan's bond market looms as a potential disruptor in H2**. Japan's 30-year government bond yield surged to a record high of 3.18%. Since the pandemic, long-term JGB yields have been on an upward trend. With inflation and wage growth picking up, the Bank of Japan has been moving toward policy normalization. In recent years, the BOJ has ended yield curve control (YCC), started raising rates, and even begun quantitative tightening (QT)—all contributing to the steady rise in JGB yields.

Figure 3: Japan 10-year Govt. Bond Yield

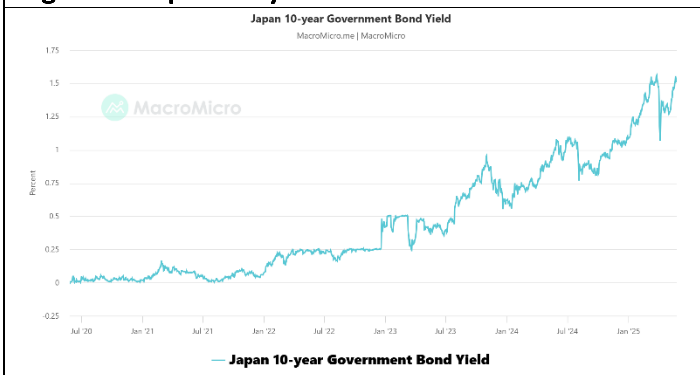
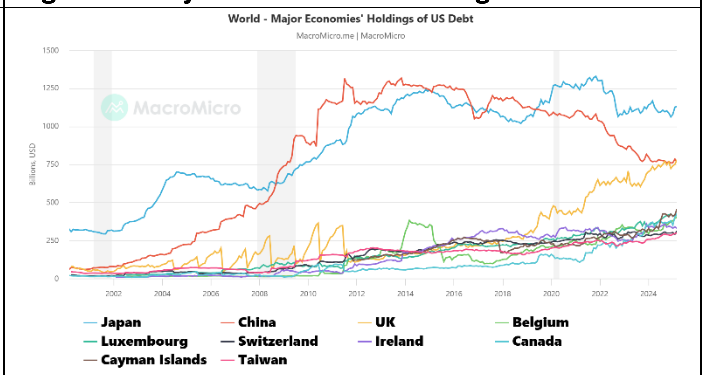


Figure 4: Major Economies' Holdings of US Debt



Japan's bond market is facing growing stress. The BOJ's latest Bond Market Survey showed the JGB market functioning index fell sharply to -44 in Q2, the lowest since May 2023. Investor confidence took another hit after Japan's 20-year government bond auction on May 20 showed weak demand. The bid-to-cover ratio dropped to 2.50, the lowest since 2012. The lowest accepted price was ¥98.15—far below the expected ¥99.80. The tail widened to ¥1.14, the largest since 1987, **signaling poor liquidity and weak interest**.

What is everyone so worried about? Japanese banks' yen lending abroad—a proxy for medium-term carry trade magnitude—has surged to $1 trillion (145 trillion yen), often to asset managers, driven by rate differentials. Unlike futures traders, asset managers may unwind positions gradually, raising the medium-term risk of reversal. Rising JGB yields may prompt major Japanese life insurers to increase their JGB holdings. **To fund this, they could sell US Treasuries. Since Japan is the largest foreign holder of U.S. debt, any shift in its holdings could have ripple effects across global markets.**

Moving forward, there are several key dates ahead that could significantly impact the yen and Japan's bond market:

- June: The Bank of Japan will announce its balance sheet reduction plan for next year. Markets currently expect a gradual pace—around a 6–7% reduction over two years. However, if the BOJ opts to speed up the process, it could put pressure on global markets.
- July: The 90-day tariff pause expires. If Trump resumes imposing high tariffs, it could trigger renewed global market volatility.
- Q3: If the U.S. Congress passes both the tax cut and debt ceiling bills, the Treasury is likely to increase long-duration bond issuance, pushing global yields higher.
- Q3–Q4: Markets expect the Fed to cut rates twice and the BOJ to hike once in the second half. If either central bank turns out to be more hawkish than expected, it could unsettle markets.

Bottom line: Japan's financial markets will be a key area to watch in the second half of the year. With rising global uncertainty, market tolerance for surprises is falling. In this environment, close attention should be paid to the JGB market, alongside inflation trends and BOJ policy signals.

Given the holiday, we thought we would add a little broader context in terms of the impact of the long-end of the treasuries curves, namely **the 60/40 balanced portfolio**.

A slump in the US long bond is clouding the comeback of a classic 60/40 investment strategy. While a bedrock of retirement savers over decades, the approach lost some of its luster in recent years as its underlying mechanism fell out of whack, with US stocks and bonds moving more in lockstep rather than offsetting each other.

This year, the strategy has come back into its own, performing as advertised even amid violent swings in both stocks and bonds. A US gauge of the 60/40 mode returned some 1.6% this year through mid-May, besting the S&P 500 Index's return in the period, and with lower volatility. **A key part of the revival has been the return of the traditional inverse relationship between stocks and bonds**. The correlation between US equities and fixed income over the past six months has reached the most negative level.

One recent major development has cropped up, though, to **threaten that balance. Benchmark 30-year Treasury bonds have taken a tumble this month, sending yields above 5%** toward the highest in almost two decades as investors grow increasingly wary of holding long-term US debt amid spiraling debt and deficits. What you are seeing in the back end of the curve globally is that they are behaving like risk assets, not like the typical kind of defensive risk-averse assets.

But in actual fact, **it may be more a case of the model being bent but not broken**. The **key is to pick the right bonds along the yield curve**. While a lot of the concerns that deficits impact bond valuations further out the curve, we do think that the front end is likely to behave as investors would expected. The outperformance of shorter-to-medium term bonds also explains why the benchmark US bond index – which has similar interest-rate risks to that part of the curve — remains negatively correlated to stocks. The average duration of the Bloomberg Treasury Index, a measure of interest-rate risk, is about 5.7 years.

On the economic data front, last week was a particularly quiet week, which may partly explain the very high focus on all things related to the budget deficit. This week is different. On Tuesday Consumer Confidence and Durable Goods is released. On Wednesday, Nvidia releases its earnings as well as the release of the FOMC Minutes. On Thursday and Friday, GDP data will be released, Jobless Claims, and the all important PCE inflation print. US markets are closed on Monday.

Figure 3: Price PCE & Core Price PCE

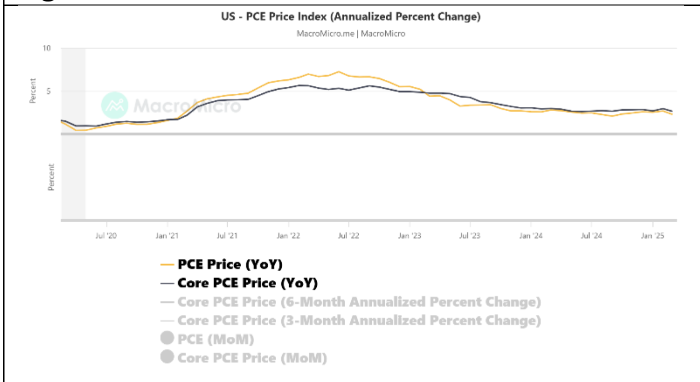
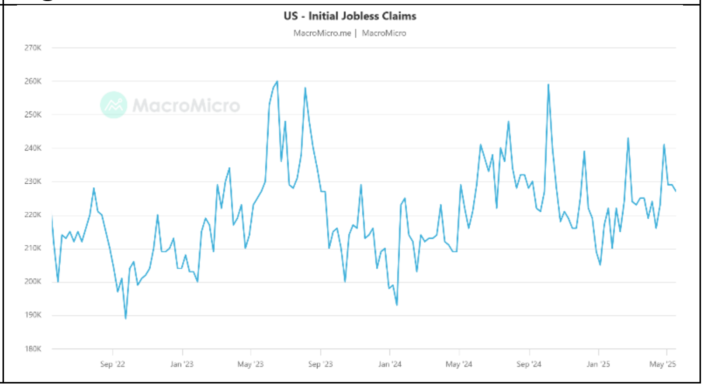


Figure 4: Initial Jobless Claims



Overview of the Australian Bond Market

Australia's 10-year government bond yield fell 6 bps to around 4.39% on Monday, following the lead from the US treasuries market on Friday. Domestic investors await domestic economic releases later this week. The upcoming data, including Wednesday's monthly CPI indicator and Friday's retail sales figures, are expected to provide crucial insights into inflation trends and consumer spending, as both are key factors in the Reserve Bank of Australia's policy outlook.

Markets are now pricing in a 65% probability of another rate cut in July, with expectations of a total 75 bps of easing by the first quarter of 2026. Additionally, the country's financial markets have a pretty firm view about where interest rates will go – down to 3.1% by the end of the year, where they will remain for at least six months. That's three quarter-point rate cuts from the RBA.

Figure 7: Australian Monthly CPI (YoY)

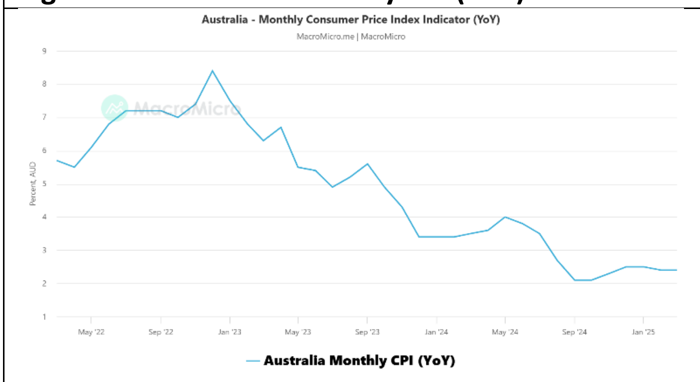
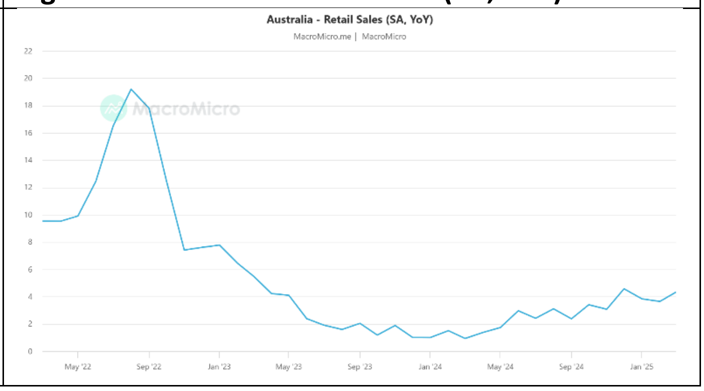


Figure 8: Australian Retail Sales (SA, YoY)



ETFs -Domestic & Global

Australian ETF News

ETF industry growth streak continues, shatters net inflow records. The ETF industry has stretched its growth streak to 71 months of consecutive net inflows, and amassed a record US$620.5 billion year-to-date, according to consultancy firm ETFGI. These record-breaking net inflows year-to-date steamrolled the previous record of US$464.2 billion set last year, and before that, US$464.2 billion in 2021.

This was achieved despite turbulence in the VIX Index, the US market's "fear gauge," which spiked earlier this year following President Donald Trump's announcement of sweeping tariffs on all US imports. The initial shock triggered a global market selloff, erasing US$5 trillion in S&P 500 market value within 48 hours. That sent the VIX Index to levels unseen since the pandemic panic, and prior to that, the Global Financial Crisis. In April, the most recent reporting date, net inflows totalled US$157 billion. A substantial portion (US$88.3 billion) came from the top 20 ETFs by net new assets, according to ETFGI.

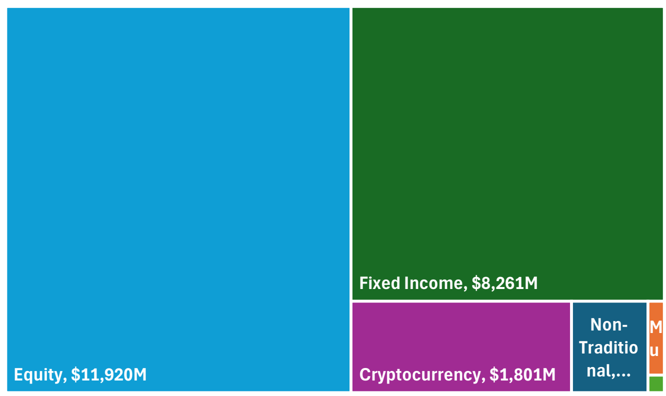
Vanguard ETFs claim first, second, and third place for April inflows. A trio of Vanguard ETFs topped April inflows, pulling in over $1.1 billion, according to Betashares' Australian ETF review. The Vanguard Australian Shares Index ETF brought in $533.6 million in inflows, followed by the Vanguard MSCI Index International Shares (Hedged) ETF with $374.5 million, and the Vanguard MSCI Index International Shares ETF at $262.2 million. The first two ETFs are also the largest by market capitalisation at $19.27 billion and $10.47 billion, respectively. Year to date, Vanguard has recorded the highest ETF issuer flows, amassing $5.3 billion, 33.28% of the industry total.

ETFs Crush it, Unlisted Unit Trusts Struggle – Inflows / Outflows. According to Rainmaker, over the past year of the 160 managers in Rainmaker's database, 90 had net outflows, with a median outflow of $104 million. Among managers with net inflows, the median was $142 million. Betashares posted the highest net flows over the period ($8.8 billion), followed by BlackRock ($8 billion), Vanguard ($6.6 billion), and VanEck ($4.2 billion). This placement is reflective of the **stark divide between unlisted unit trusts and ETFs: unlisted unit trusts saw negative net flows of $15.7 billion, whereas ETFs benefited from positive net flows of $29 billion. Seven asset class sectors had positive net flows** over the period: short-duration bonds (credit, high yield and absolute return), Australian equities large cap, diversified bonds, international equities small caps, cash, international equities large cap, and emerging markets equities.

US ETF Flows by Asset Class

The value of ETF flows data is relatively obvious – it highlights asset class inflows and outflows. As such, it illustrates investor asset class preferences at any given time. Relative to the ASX data, which is monthly, US data is available on both a more frequent and timely basis. The data below is as at 22 May 2025.

Figure 1: One Week US ETF Flows (as at 22 May)	**Figure 2: US ETF Flows by Asset Class (as at 22 May)**



Asset Class	1-week	1-month	3-month	YTD	1-year
Non-Traditional	$624M	$4,577M	$37,857M	$51,805M	$103,931M
Multi-Asset	$109M	$262M	$1,238M	$1,238M	$3,468M
Fixed Income	$8,261M	$30,287M	$77,004M	$141,592M	$354,390M
Equity	$11,920M	$31,425M	$134,346M	$213,889M	$739,687M
Currency	-$52M	$17M	$968M	$1,042M	$950M
Cryptocurrency	$1,801M	$7,701M	$2,673M	$7,745M	$35,422M
Commodity	-$1,885M	-$4,178M	$8,950M	$13,300M	$18,093M
Alternative	$26M	$241M	-$79M	$654M	$1,731M

Global Select ETF Launches

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.

Regarding the table below, there are several distinct themes reflecting investor preferences currently:

- **German equities ETFs** – Germany has been running hot all of 2025. Initially it was a relative value play vs the US. Then it became a defense sector play as well as the major theme of a diversification away from the US.
- **Income related ETFs** – defensive, fixed income products, partly reflecting the more defensive or at least diversification of portfolios given a range of uncertainties, particularly in the US and in US equities.
- The Innovator Capital Management launched the Innovator Equity Managed 100 Buffer ETF is an interesting product. It is an actively managed solution that seeks to **provide 100% downside protection** through a one-year laddered options portfolio. It is reflective of many ETFs that have been issued over the circa last 4-6 weeks particularly in the US – equities exposure but with either downside preservation or downside protection.
- **Global / international equities ETFs**. Same theme – diversification away from the US.
- Franklin Templeton to **convert 10 Putnam Municipal Bond mutual funds to ETFs**. I wonder why. These is a very common dynamic these days.

Figure 2: Select ETF Launches, for May 8th to 22nd 2025
Select European ETF Launches
STOXX launches DAX Composite Indices
First Trust launches three ETFs on Deutsche Börse
Crédit Agricole and Solactive launch Solactive Constant Maturity Government Bond Index Family
Janus Henderson launches UCITS mortgage-backed securities ETF
Franklin Templeton to convert 10 Putnam Municipal Bond mutual funds to ETFs
Select US ETF Launches
Vontobel Asset Management, Inc. launched the Vontobel International Equity Active ETF
Lazard Asset Management converted the Lazard International Equity Advantage mutual fund into an ETF
Innovator Capital Management launched the Innovator Equity Managed 100 Buffer ETF
Russell Global Infrastructure Active ETF

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