Your Income Advantage

12th May 2025

Overview of the US Market

US stocks roared higher on Monday after the US and China agreed to temporarily slash tariffs, easing fears of a prolonged trade war and possible recession. The **S&P 500** jumped 3.2% and the **Nasdaq 100** soared 4%, while the **Dow Jones** jumped almost 3.0%.

Amid a potential **reset in inflation expectations**, Treasury yields climbed as traders lowered their Fed wagers to just two rate cuts in 2025. The two-year yield climbed 11 bps to around 4%. In the US investment-grade bond market, 16 companies are selling debt, including Unit ed Parcel Service Inc. and Caterpillar Inc.

Treasury Secretary Scott Bessent called the weekend negotiations in Switzerland "very productive," confirming both sides would cut tariffs, the US to 30% and China to 10%, for 90 days.

Consumer discretionary was by far the top performing sector, adding about 5.5% while consumer staples and utilities underperformed. **Tech** also booked strong gains, namely Apple (6.3%), Nvidia (5.4%), Amazon (8.1%), Meta (7.9%), Alphabet (3.4%), and Tesla (6.7%). On the other hand, pharmaceutical stocks were lower after Trump said he would sign an executive order to cut prescription drug prices. Traders will closely watch inflation data later this week for signs of how the new tariff regime could affect prices.

For big investors shocked into defensive measures at the height of April's chaos, the swift recovery in markets has been a mixed blessing. Shorting the dollar, going long stock volatility and piling on bets premised on multiple Fed rate cuts were among the most popular trades in mid-April. Each has taken severe lumps. Indeed, their unwinding may be adding fuel to the bounce-back.

Overview of the Australian Market

A rally in energy and mining companies helped the share market inch higher on Monday as investors geared up for a trade deal between China and the US that was announced barely an hour after the market close. The **S&P/ASX 200 Index** rose 2.3 points, less than 0.1%, to 8233.5 points at the market close, after earlier rising as much as 0.6%. Seven of 11 sectors were in the green, with energy leading the gains.

BHP jumped 2.3%, with news of a jumbo copper discovery from its Argentinian project and the stronger iron ore price helping lift its shares. Going the other way **falling gold prices** sparked a sell-off in ASX gold stocks. **It's risk on, and gold will struggle while it remains so**.

Today, Westpac is set to release its latest **consumer confidence survey** report with NAB poised to release its latest check on **business confidence and conditions** this morning too.

Of course, the **US and China ended days of speculation** over a possible trade deal shortly after the market close, announcing that Beijing would lower tariffs on US imports from 125% to 10% for 90 days, and the US would reduce its rate on Chinese goods from 145% to 30% for the same period. That announcement came out shortly after market close.

Overview of the US Bond Market

The **yield on the US 10-year Treasury note** rose circa 7bps to 4.45% on Monday, its highest level in roughly a month, as risk appetite improved following news that the US and China agreed to substantially reduce tariffs. Under the 90-day agreement, the US will cut tariffs on Chinese goods from 145% to 30%, while China will lower levies on US imports from 125% to 10%. The announcement boosted investor confidence, signaling a serious intent on both sides to ease trade tensions.

Meanwhile, attention is shifting to **key inflation data due this week, with CPI and PPI reports** expected to offer insights into evolving price pressures and whether the effects of the tariffs are already filtering through inflation. Traders are now pricing in two 25 bps cuts to the federal funds rate this year, with the first likely in September, down from three rate cuts anticipated just a week ago.

Overview of the Australian Bond Market

Australia's 10-year government bond yield rose to around 4.44% on Monday, reaching a more than four-week high, as the US-China trade deal boosted risk appetite across financial markets. Both nations agreed to reduce mutual tariffs for 90 days, alleviating concerns over a disruptive trade dispute between the two powerhouses and easing fears of potential economic fallout.

Domestically, Australia faces a busy week of economic releases, starting with Westpac's consumer confidence survey for May and the NAB business survey for April, followed by home credit data and the latest labor statistics. These reports will precede the Reserve Bank of Australia's decision next week, with investors still anticipating a 25bps rate cut to 3.85%.

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.

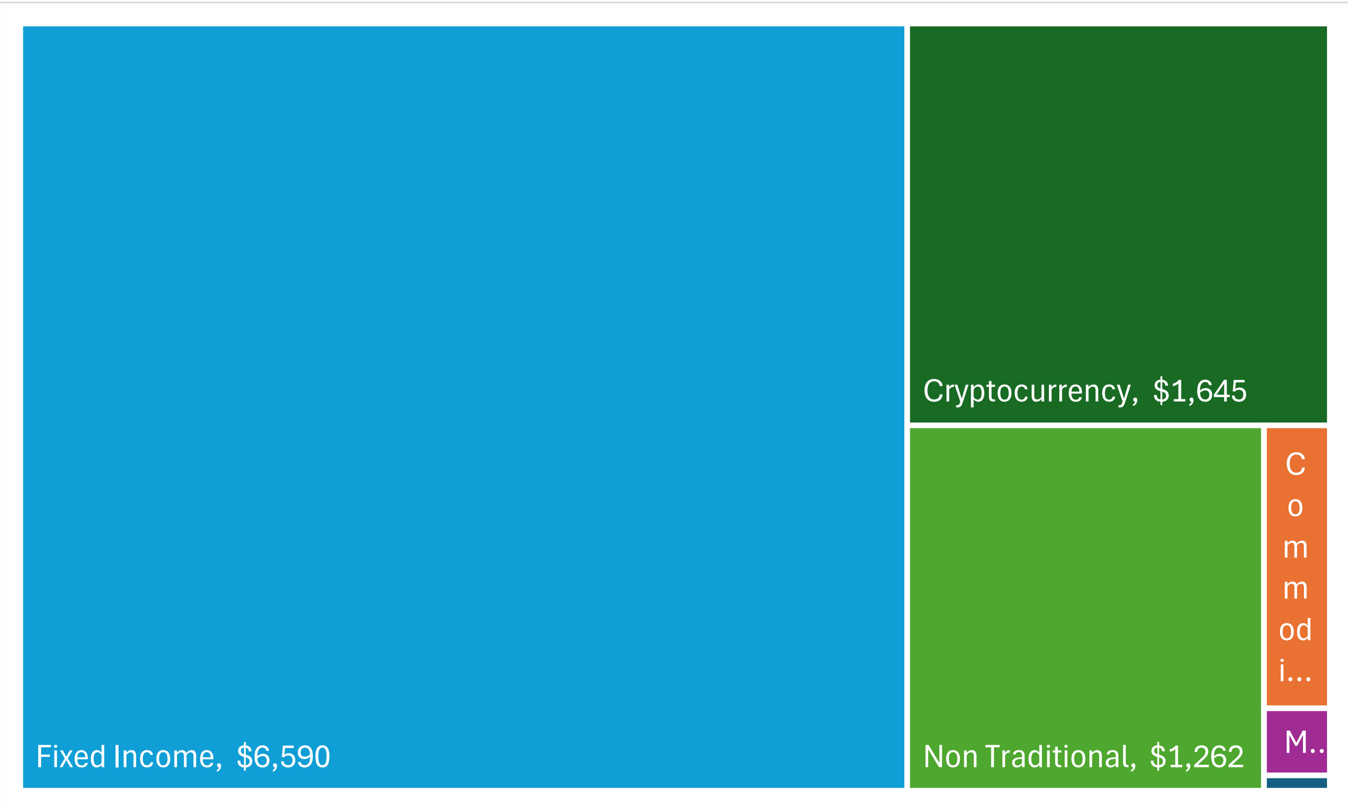
New research covering equity and fund managers across Europe and the US, commissioned by Carne Group, reveals more than 28% of those surveyed believe ETFs are critical to their company's long-term

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.

Weekly Flows data. What happens in the US regarding TAA happens in Australia.

- Total 5-day ETF flows reached $9,229.4 million. **The punters are all-in**, but they are in selectively.
- **Fixed Income** led in one-week asset class flows with $6.590 million **while Equity ETFs saw modest net outflows**
- **Global Ex-U.S. Large Cap** - Blend ETFs had the top category flows with $4,023.26 million
- Sector ETFs saw mixed flows last week, Financials ETFs saw almost $500 million in net outflows while Health Care ETFs gathered $386 million in net inflows. **Call it Defensive**.
- Disruptive Tech gathered $224 million in net inflows bringing its YTD total to over $2 billion in net inflows
- **Corporate Bond ETFs** saw $3.638 billion in net inflows for the week while Government Bond ETFs lost $1.788 billion in net outflows
- Bitcoin ETF pulled in $1.454 billion in net inflows on the week, **IBIT** gathered $2.046 billion

Figure 1: Weekly US ETF Flows by Sector



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