yieldreport Daily

Your Income Advantage

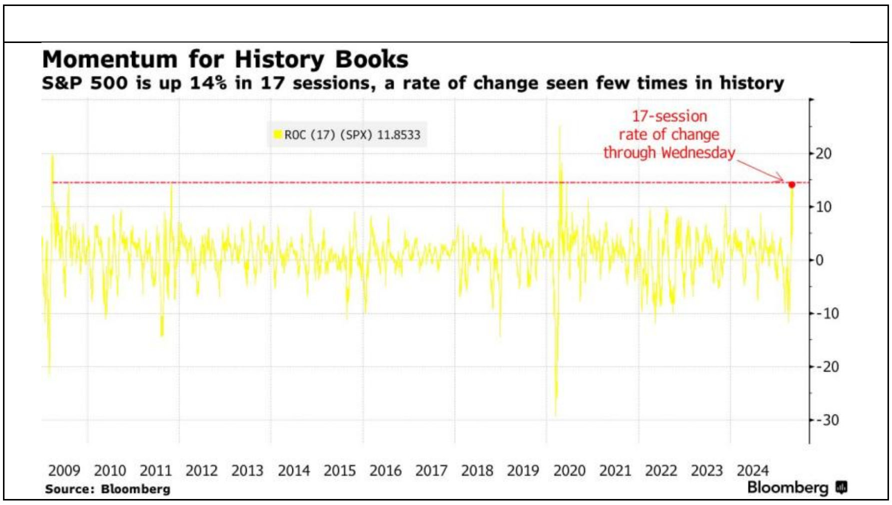
20th May 2025

Overview of the US Market

Wall Street's rally took a breather on Tuesday, with stocks falling as traders awaited fresh catalysts after a six-day run that put the S&P 500 up almost 20% from its April lows. The US equity benchmark lost steam following an $8.6 trillion surge to around "overbought" levels. **Big tech** weighed on trading, with Alphabet Inc. down about 1.5% during the company's developer conference. **Tesla Inc.** was the only megacap gaining as Elon Musk said he's committed to leading the electric-vehicle giant five years from now. The **S&P 500** fell 0.5%. The **Nasdaq 100** slid 0.6%. The **Dow Jones Industrial Average** lost 0.4%.

A common view amongst Wall Street commentators is that there is little question that the **momentum in the equity** market is quite strong. That said, the market is getting **overbought near-term**, so it could see a breather at any time. However, unless that breather turns out to be a serious reversal, a retest of those all-time highs soon is very possible. But the fact remains that risks such as tariff uncertainty, softening economic data and fiscal headwinds challenge the sustainability of the recent equity rebound.

In Yesterday's post, we noted how the recent rally has been overwhelmingly driven by retail investors. As we know, Trump's tariffs announcement on April 2 devastated financial assets, wiping out some $6 trillion in market value from US stocks in just two trading days. **Wall Street's "smart money"** — hedge funds and other professional investors — **dumped equities**, and strategists urged clients to flee. But the **so-called dumb money, embodied by retail traders, didn't see things that way**. To them, the stock market was suddenly on sale, meaning it was time to buy, not hide. And it turns out they were right, as Trump reversed himself a week later and paused most of his levies on April 9, sending the S&P 500 Index soaring 18% since then. Retail investors bought stocks at a record pace during the market downturn, earning a roughly 15% return since April 8, and plowing a net $50 billion into US stocks.



Corporations across the US, Europe, and China are pulling their forecasts for the year or providing grim outlooks, citing rising costs, weak consumer sentiment, and a lack of business confidence due to President Donald Trump's worldwide trade offensive. One thing is clear as the first-quarter earnings season draws to a close: The uncertain outlook for the global economy is superseding better-than-feared results even as stocks rally on signs of easing trade tensions. Corporations across the US, Europe and China are pulling their forecasts for the year or providing grim outlooks, citing rising costs, weak consumer sentiment and a lack of business confidence as a result of President Donald Trump's worldwide trade offensive. The recent earnings season wasn't about the numbers; it was about the narrative. Nobody cared what you did in the first quarter other than to determine the jumping off place for the new tariff economy.

Meanwhile in Europe, analysts' expectations for 2025 earnings growth have slowed by the sharpest since the Covid pandemic, BI found, even as MSCI Europe constituents posted a 5% earnings increase, beating an expected 1.5% decline. And in China, earnings projections for the benchmark CSI 300 Index have fallen 1.7% from a peak around the end of March, data compiled by Bloomberg show. Investors were in for a rude awakening as they were expecting outlooks to turn around in the first quarter, but Trump's tariff blitz complicated the nascent recovery in corporate profits.

Overview of the Australian Market

The sharemarket extended gains after the Reserve Bank of Australia followed through with a 25 basis point interest rate cuts that had been widely expected by economists. The S&P/ASX 200 rose around 0.2 percentage points after the RBA's rate call, taking its total end-of-day gain to 0.2%. All 11 sectors were in the green.

Technology and financial stocks, which are typically sensitive to interest rates, advanced. Commonwealth Bank lifted 0.4%, tempering an early advance that saw it push past $173. National Australia Bank jumped 1.0% and Macquarie rose 2.3%. ANZ up 1.5% and pared Monday's loss. TechnologyOne leapt 10.8% after the software giant lifted its interim dividend 30% and reported strong revenue growth in the first half. WiseTech climbed 2.9%.

Profit-taking hit typically defensive utilities stocks ahead of the rate decision with power company Mercury NZ retreating 3.1%. Gold stocks were also heavily sold, with Newmont down 2.1%. **Gold edged lower** as the haven demand from Moody's Ratings' downgrade of the US faded, and attention turned back to the easing of trade tensions between the two largest economies.

Overview of the US Bond Market

The **yield on the US 10-year Treasury** rose up to 7bps to 4.52% on Tuesday, after a volatile session on Monday during which the benchmark briefly touched a one-month high. Investors continued to evaluate the US fiscal and economic outlook amid growing concerns. Fiscal worries were further intensified by the approval of President Trump's tax-cut legislation by a key congressional committee. The interest rate sensitive 2-year declined 2bps to 3.98%. That is, further steepen in the curve, call it the 'fiscal term premium'. And all of this feeds into the **narrative of being invested in the short-end and medium-end of the curve**.

Meanwhile, **Fed officials continue to strike a cautious tone**. New York Fed President Williams and Atlanta Fed President Bostic indicated that policymakers are unlikely to consider interest rate cuts in the near term. Markets are currently pricing in two 25-basis-point rate cuts by the end of the year, possibly in September and December.

Meanwhile KKR & Co., have published a note stating that **US government bonds are no longer working as an effective hedge against risky assets**, creating a challenge for global investors and spurring a search for asset diversification. Bigger fiscal deficits and stickier inflation suggest that bonds will not always rally when stocks sell off, breaking down the traditional relationship between the two assets, Henry McVey, KKR's head of global macro and asset allocation, said in a research note. "During risk off days, government bonds are no longer fulfilling their role as the 'shock-absorbers' in a traditional portfolio," McVey wrote.

Overview of the Australian Bond Market

Post the RBA decision, the 3-year government bond yield fell a **very large 15 bps to 3.50%** and the 10-year return lost 5 bps to 4.44%. Yields fell as the tone of the RBA's statement appeared **more dovish than the market had anticipated**. **Which is why the more interest rate sensitive part of the curve fell so significantly**. Additionally, feeding into to those yield moves, the **RBA reduced its inflation projections** reflecting a view that risks have subsided to a degree and indicating that headline inflation will likely remain near the midpoint of the 2–3% target range throughout much of the forecast period. All up, both the **market and economists will likely increase the number or degree of expected interest rate cuts**.

In money markets, **bond traders rapidly dialled up rate cut expectations** and now expect the cash rate to end the year at 3.17%. That compares to 3.3% before the policy meeting and implies between two and three additional rate cuts by Christmas. Over 1H2026, the implied rate is slightly above 3.0% - call it the terminal rate.

Meanwhile, BondAdviser has noted that last week demonstrated that demand for **Tier 2 paper, or floating rate note (FRN) subordinated debt (largely issued by Australian banks)** remains stronger than ever. BondAdviser noted that the 5-year marker for Big Four FRNs ended Friday at +158bps, marking ~13bps of compression for the week and almost 50bps since April's peak. This compares to the Feb-24 tights of +144bps and closer to +150bps at the beginning of the year when both ANZ and WBC priced 10NC5 deals at +152bps (on 8-Jan and 6-Feb respectively).

For domestic retail investors, there are **several managed funds and ETFs** provide exposure to Australian FRN subordinated debt, with **Coolabah** the largest domestic fund manager in the segment.

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 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.

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 16 May 2025.

Figure 1: One Week US ETF Flows ($M)

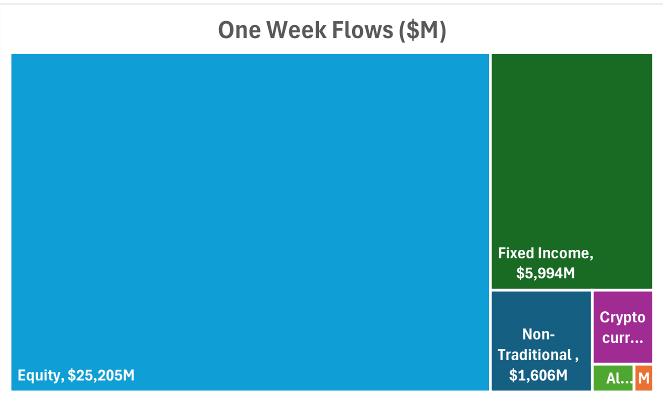


Figure 2: US ETF Flows by Asset Class ($M)

Asset Class	1-wk Flows	1-mth Flows	3-mth Flows	YTD Flows	1-yr Flows
Non-Traditional	$1,606M	$6,297M	$38,891M	$51,573M	$101,957M
Multi-Asset	$84M	$252M	$1,292M	$1,185M	$3,449M
Fixed Income	$5,994M	$29,197M	$79,711M	$136,547M	$352,638M
Equity	$25,205M	$31,740M	$145,521M	$208,581M	$744,599M
Currency	-$135M	$269M	$1,068M	$1,052M	$943M
Cryptocurrency	$701M	$6,259M	$955M	$6,401M	$34,760M
Commodity	-$2,338M	-$2,961M	$13,322M	$13,513M	$18,752M
Alternative	$180M	$204M	$115M	$631M	$1,733M

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.

Figure 3: Select ETF Launches, for May 8th to 15th 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
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

Finally, **Trackinsight published its 2025 global ETF survey** last week revealing that the ETF Industry has broken new barriers as global growth accelerates.

Active ETFs: The breakout story. **Active ETFs now represent 27% of global listings** (up from 13% in 2019). They attracted USD352 billion in 2024—22 per cent of total flows—and made up 51% of all ETF launches.

The US leads with USD973 billion in active ETF AUM and 60 per cent of new listings. Share class reform and fund conversions are poised to fuel further growth. Europe is catching on, with active ETF AUM quadrupling since 2019, the firm says.

APAC (ex-China/India) is gaining speed. Australia, Korea and Japan are driving growth with AI, income, and flexible strategies. Regulatory changes have helped level the playing field, Trackinsight writes.

Fixed Income ETFs: maturing & expanding: Bond ETFs exceeded USD2.6 trillion in AUM (ex-China/India). The US dominates with USD1.9 trillion, but Europe, Canada, and APAC are growing fast. 2024 saw 572 new bond ETFs globally. Active strategies took the lead, with 269 launches and USD127 billion in inflows — a third of all Fixed Income ETF inflows. Their market share hit 15%, up from 9% in 2019.

Thematic ETFs: growth, but selective. Thematic ETFs hit a turning point. US assets reached USD278 billion, led by crypto, infrastructure, AI, and nuclear. But closures are rising, especially in niche fading or volatile areas like metaverse and blockchain.

About YieldReport - Your Income Advantage

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