yieldreport Daily

Your Income Advantage

23rd May 2025

Overview of the US Market

Wall Street initially staged a cautious comeback but then late selling kicked in leaving the major indices largely unchanged. Today's trade was in the wake of a Treasury selloff that shook markets around the globe amid fiscal concerns, but bonds gained slightly on Thursday. At the close, the **S&P 500** was unchanged. The **Nasdaq 100** added 0.3%. The **Dow Jones Industrial Average** was unchanged.

Right now, it is all about bonds. Today bond traders decided to buy the dip, allowing stocks to edge higher. Equities investors learned the hard way yesterday that the bond market has enough sway over equity pricing to disrupt even the most resolute traders. In fact, while pressures on the Treasury market eased somewhat, stocks would probably need a material move lower in bond yields to have the green light to return to recent highs. At the close, the **10-year** declined 6bps to 4.55%, the **30-year** declined 4bps to 5.05%.

Goldman Sachs notes that **the recent move in Treasuries neared the pain threshold for the equity market**. Based on their calculations, when the 10-year bond yield moves higher by two standard deviations within a one-month period, the stock market comes under pressure. At what level do yields start to put real pressure on the stock market? The easy big round number is 10-year at 5%. The more nuanced answer is above 4.7% before the end of May as velocity of move in rates matters much more than absolute levels in regards to impacting stocks.

On the economic front, **Existing Homes Sales for April declined more than expected**. The figure represents the slowest pace in seven months, restrained by affordability constraints and highlighting a lackluster start to the spring selling season. More significantly, it was **the weakest April since 2009**. Odds of a sustained pickup in the resale market are limited as **mortgage rates march higher** and prices stay elevated, despite more listings coming on the market. What's more, **consumer sentiment is near the lowest level on record**, and the share who say now is a good time to buy a home is also close to an all-time low, according to the University of Michigan. **Mortgage rates rebounded last week to a three-month high of 6.92%**, and are continuing to move up even more as Treasury yields climb. **It is the 30-year that sets mortgage rates** – where the rubber hits the road regarding Main Street. **New Home Sales** out on Friday.

Figure 1: US Existing Home Sales

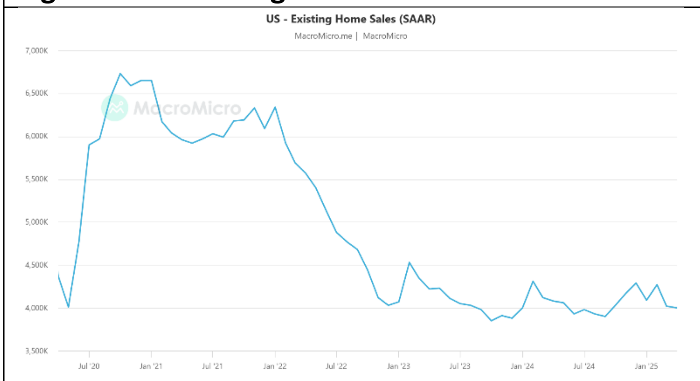
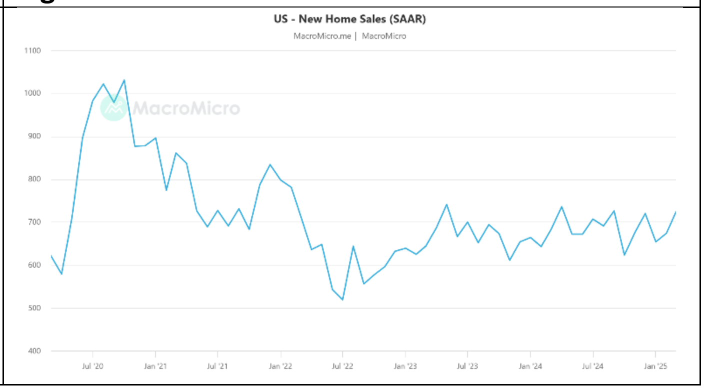


Figure 2: US New Home Sales



Overview of the Australian Market

Profit-taking in the big banks and miners dragged the share market lower on Thursday, spurred by heavy selling on Wall Street that saw US equities report their steepest losses in a month. The **S&P/ASX 200** Index fell 0.45% to close at 8,349 on Thursday, pulling back from a three-month high as Australian shares mirrored the sharp overnight selloff on Wall Street. Nine of 11 sectors were in negative territory, with energy leading losses. The **All Ordinaries** fell 0.6%.

Financial stocks led the downturn, with declines in Commonwealth Bank (-1.3%), Westpac (-0.8%), and National Australia Bank (-0.7%). Energy stocks also retreated, pressured by falling oil prices amid reports that the US and Iran will resume nuclear talks. Sector heavyweights Woodside Energy and Santos dropped 1.3% and 0.9%, respectively. Losses extended across technology, consumer, and mining stocks, reflecting broader risk-off sentiment across markets.

On the domestic economic front, private sector growth in Australia slowed to a three-month low in May, driven by a moderation in services activity, while the manufacturing sector held steady.

Overview of the US Bond Market

US treasury markets calmed today after the significant ructions and upward moves in long-end yields yesterday. The **US 10-year Treasury note** fell 6 bps to 4.54%. The **US 30-year Treasury note** fell 4 bps to 5.05%.

President Donald Trump's **signature tax bill narrowly passed the House Thursday morning**, advancing a sprawling multi-trillion-dollar package that would avert a year-end tax increase at the expense of adding to the US debt burden.
The bill now heads to the Senate, where groups of Republicans are pressing for extensive change. Lawmakers plan to vote on approval by August. The bill includes a $4 trillion increase in the US debt ceiling, which the Treasury Department forecasts could otherwise force a default as soon as August or September, adding urgency to the timeline.

On the topic of the fiscal deficit, even if the inability to reduce the deficit in the US doesn't lead to default, **a large deficit still implies greater bond supply**, and perhaps eventual inflation as the debt is monetized to avoid default. Either way, it makes nominal fixed-income instruments less attractive as long-term investments.

Which brings us to the Bond Vigilantes. If Trump is going to shepherd the signature legislative package of his second term through the Senate, he may have to reckon with an even more demanding constituency: customers for the ballooning amount of US debt. The moves yesterday were reminiscent of Trump's wrangle with the bond markets last month, when he blinked. In the early morning hours of April 9, Treasury yields surged as Trump's steep retaliatory tariffs — the highest in more than a century — went into effect. While a months-long slump in equities barely fazed him, the bond market got his attention. If Treasuries continue to stay queasy, the higher yields not only threaten to dampen economic growth — as they translate into higher borrowing costs for everything from homes to cars — but to accelerate the government's fiscal deterioration. As rates rise, so does the Treasury's interest bill. **Let's be honest, the bond market hates this tax bill.**

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University of Michigan. **Mortgage rates rebounded last week to a three-month high of 6.92%**, and are continuing to move up even more as Treasury yields climb. **It is the 30-year that sets mortgage rates** – where the rubber hits the road regarding Main Street. **New Home Sales** out on Friday.

Other data Thursday pointed to a stable labor market and improved business activity after a slump in April. Initial jobless claims were little changed last week, the period when the government surveys for the May employment report. The S&P Global flash May composite index of business output rose as anxiety on tariffs eased.

Weigh all the above up – just reinforces the Fed's 'wait-and-see' approach.

Overview of the Australian Bond Market

Australia's 10-year government bond yield increased 2 bps to around 4.51% on Thursday. The Tuesday declines have now been offset, with the market taking its cues once again from the US treasuries market. While the RBA is guiding the market down, the Australian bond market in terms of pricing does not operate in isolation to the world – and US yields at the long-end have increased significantly, particularly this week, with the long-end being absolutely hammered on ballooning budget deficit concerns. And that is bad news for Australian government debt servicing – spare a thought for Victorians, with the state currently paying $26m a day on interest.

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)

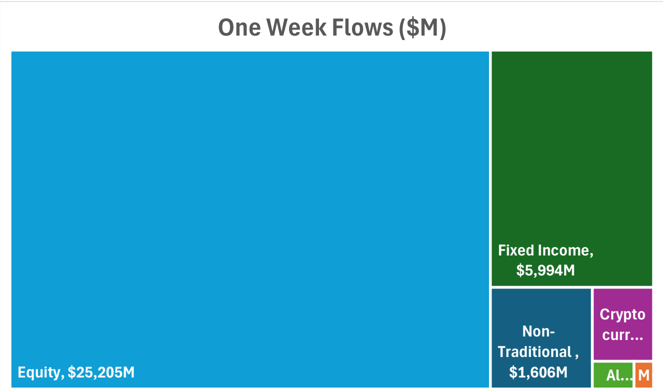

Figure 2: US ETF Flows by Asset Class ($M)

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.

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