yieldreport Daily

Your Income Advantage

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Overview of the US Market

Another report showing the US economy entered the trade war on solid footing pushed stocks away from session lows, while President Donald Trump suggested that his administration could strike trade deals with some countries as soon as this week. A rebound in industrial shares helped the S&P 500 erase most of a slide that earlier approached 1%. Data showing a pick-up in growth at US service providers helped assuage concerns of a recession even as the outcome of the US trade war has yet to be felt. While Trump signaled no imminent accord with China, the president said the Asian nation wants to make a deal "very badly".

Attention will soon shift to **Wednesday's Fed decision** after bond traders dialed back rate-cut bets that had steadily mounted as Trump's trade war unleashed havoc in financial markets. As long as the economy holds firm, Jerome Powell and his colleagues can more easily justify the standing pat. Uncertainty rules amid a trade war and the ever-changing landscape of tariffs, but with the hard data on consumer spending and employment still hanging in there, the Fed will remain firmly planted on the sidelines.

The **S&P 500** fell 0.1%. The **Nasdaq 100** slid 0.1%. The **Dow Jones Industrial Average** added 0.3%. The yield on 10-year Treasuries rose six basis points to 4.36%. The Bloomberg Dollar Spot Index fell 0.1%. Oil sank as OPEC+ agreed to a bumper output increase. Taiwan's dollar surged the most since 1988 on bets authorities might allow it to appreciate to help reach a trade deal with the US.

After piling into short-term Treasuries, anticipating the Fed would start easing policy soon to contain the fallout, traders reversed course. Two-year yields rose for a third consecutive session - the longest run since December - as traders bet policymakers will remain in wait-and-see mode until there's more clarity on the impacts of tariffs. That said, the longer policy uncertainty persists, the greater the potential hit to economic activity.

But the tariff clock is ticking, and the Trump administration has a fairly limited window to make progress on trade deals before the economic damage becomes more pervasive and less reversible. The longer trade policy uncertainty lingers, the more economic damage accumulates. **Keep that in mind amongst all the noise**.

Overview of the Australian Market

The share market snapped a seven-day winning streak after a lacklustre earnings report by Westpac and a plunge in the oil price sent banks and energy stocks tumbling. A worse-than-expected earnings report by Westpac sparked a sell-off in the big banks after its interim profit missed expectations. Some investors also cast doubt on its plan to double down on business and institutional loan growth.

The **S&P/ASX 200 Index** fell 0.97% to close at 8,158 on Monday, ending a seven-day winning streak, as sharp losses in the banking sector weighed on the broader market.

Westpac Banking Corp plunged 3% after posting weaker-than-expected first-half earnings, attributing the shortfall to narrowing loan margins. The bank also warned that shifting global trade policies could strain funding conditions. The downturn in sentiment extended to other major banks, with Commonwealth Bank falling 1.6%, NAB down 1.8%, and ANZ Group slipping 1.0%. Energy stocks also came under pressure as oil prices dropped more than 3% following OPEC+'s announcement of a second consecutive monthly production increase for June. Woodside Energy declined 3.6%, while Santos fell 4.0%.

Note this trade, because its almost the first day the ASX was driven by the US.

Overview of the US Bond Market

The **yield on the 10-year US Treasury note** jumped to 4.35% on Monday, extending the rise from last week as markets weighed on upside inflation risks against economic pessimism from tariffs. ISM data reflected a sharp expansion in US services activity in addition to a surge in cost pressures, aligned with the strong jobs report and higher PCE inflation figures released last week. This countered data that underscored a negative impact from tariff threats, including the GDP contraction in Q1, the surge in imports to front-load levies, and plunge in port volumes.

Lack of clarity on whether President Trump will maintain tariffs for a longer period drove markets to a consensus that the Federal Reserve will maintain rates unchanged this week. While concerns of economic contraction drove rate futures to reflect multiple cuts by the Fed this year, support for US Treasuries were offset by worries that uncertain economic policy may damage the US exceptionalism in capital markets.

What's happening? Well, this is what's happening. Fifteen minutes after the April employment report hit early Friday, President Donald Trump seized on the surprisingly strong job growth to ratchet up his pressure on Federal Reserve Chair Jerome Powell, saying there was no reason to hold off on cutting interest rates. Bond traders came to the exact opposite conclusion. The pace of hiring — as well as a manufacturing report on Thursday that wasn't as downbeat as expected — drove traders to dial back rate-cut bets that had steadily mounted as Trump's trade war unleashed havoc in financial markets and sowed fears of a US recession.

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 labor 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.

Overview of the Australian Bond Market

Australia's 10-year government bond yield rose 2 bps to around 4.31%, reaching a two-week high after Prime Minister Anthony Albanese secured a second three-year term in the federal elections. Albanese pledged a "disciplined" government focused on addressing cost-of-living issues, global trade tensions, and reaffirmed commitments to renewable energy, tax cuts, housing, and healthcare investments. These policies are seen as potentially increasing inflationary pressures, which could limit the Reserve Bank's ability to cut rates. **To be honest, a day of tread water**.

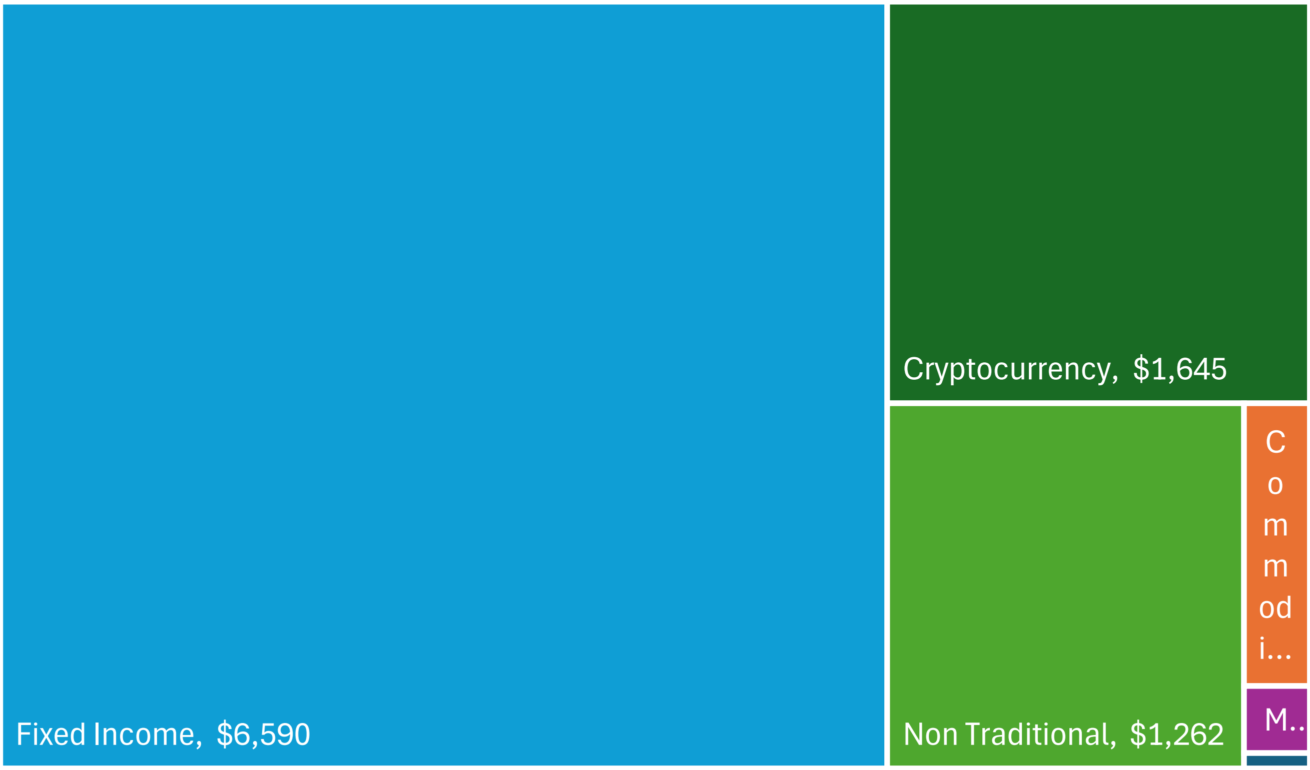
Meanwhile, the **Melbourne Institute's Monthly Inflation Gauge** rose 0.6% in April, easing from March's 0.7% but marking a second consecutive increase. Investors are now looking ahead to the RBA's May policy meeting, where a 25-bps rate cut to 3.85% is widely expected. Markets are also pricing in a further decline to 2.85% by year-end amid easing inflation and weaker global growth prospects.

ETFs -Domestic & Global

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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