yieldreport Daily

Your Income Advantage

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Overview of the US Market

The India story, the Germany story, the Fed story, the dollar story, but trade remains the most dominant story, at least in the short term. **And now the focus is on US – China**, and they are starting from a mere 145%. China in the interim dropped rates, to start from a position of strength. Note that – **China is not going into Geneva talks acting like a meek mouse**. There's a lot riding on these talks. Negotiations haven't even started.

What's interesting at the moment is that we have a **bifurcation of views** depending on where you're based. Americans generally tend to be much more positive on overall the situation and what's going to happen here through two different narratives. One is that Trump's plan is a good plan. He'll get loads of great deals and loads of investments and loads of great trade deals. The other is that he'll have to backtrack so aggressively that that'll provide such a relief and he'll instead focus some fiscal and abandon tariffs entirely. Even though they're contradictory. Americans tend to be more positive on what's happening and that there'll ultimately be a relief rally. The rest of the world is more concerned. It is that marginal flow from the rest of the world wanting to decrease their US exposure of the coming years.

And anyone that thinks American democracy is dead, then you weren't watch Scott Bessant get grilled by Congress. I was. US stocks mostly rose Wednesday as investors weighed the potential impact of tariffs on businesses ahead of the Fed's policy decision. **And then we had Jay Powell. And there was one certainty – uncertainty.**

So we are waiting for the hard data in a situation where, for example, US GDP was nuts last month due to pre-orders of imports. So, we are back in a situation where the Fed goes late . . . . . again. What's that equal. Volatility.

And . . . . .US stocks swung mostly lower on Wednesday following warnings of stagflation risks by the Federal Reserve and concerns of prolonged tariffs by the US. The **S&P 500** lost 0.4% and the **Nasdaq 100** dropped 0.8%, while the **Dow** held near the flatline. The Fed held its interest rates unchanged, as expected, and maintained the pace of its balance sheet runoff. Still, the central bank stressed that uncertainty on the economic environment increased as trade barriers risk inflation and higher unemployment, even though the latest data still point to a robust backdrop.

On the **corporate front (that's right, the micro vs the macro – you'd be forgiven)**, Disney surged 9% after reporting a surprise increase in streaming subscribers, and AMD rose 3% after its results. On the other hand, Alphabet lost over 6% after Apple said it is looking for AI-powered search engines in its Safari browser, suggesting the partnership with Google may be coming to the end.

Meanwhile, fancy comedic irony? The US trade deficit widened to a record in March as companies rushed to import products including pharmaceuticals as the Trump administration readied sweeping tariffs. The goods and services trade gap grew 14% from the prior month to $140.5 billion, Commerce Department data showed Tuesday. The median estimate in a Bloomberg survey of economists was for a $137.2 billion deficit. Imports of consumer goods climbed by the most on record, primarily due to the largest-ever inflow of pharmaceutical preparations. Imports of capital equipment and motor vehicles also increased. **Let's wait for April**.

JP Morgan London Fixed Income office came out with a terrifying note today. We are heading towards a global Brexit – labour cut off, inflation up. If we don't step back. I lived in London during Brexit – key word – **Complacency**. I'm seeing EM currencies move four standard deviations.

Overview of the Australian Market

The **S&P/ASX 200 Index** rose 0.33% to close at 8,178 on Wednesday, breaking a two-day decline as reports that top US officials are set to meet with their Chinese counterparts this week raised optimism about potential US-China trade negotiations, boosting sentiment globally.

On the domestic front, data showed continued weakness in Australia's industrial sector in April, with trade and election-related uncertainties weighing heavily on manufacturing, particularly in export-exposed areas.

In corporate news, National Australia Bank surged 1.9% after posting better-than-expected first-half cash earnings. Meanwhile, Macquarie Group rose 0.7% even after regulators launched new enforcement actions against its banking unit over significant compliance breaches. Elsewhere, mining and energy stocks broadly advanced, while gold-related shares came under pressure.

Overview of the US Bond Market

The **yield on the 10-year US Treasury note** held around 4.31% on Wednesday as investors awaited the Federal Reserve's policy decision. While the Fed is widely expected to keep interest rates unchanged, markets will be closely watching Chair Jerome Powell's remarks for signals on the future policy path, particularly amid rising political pressure to lower rates. **I haven't spent less time thinking about a Fed Decision**. **But will he roll out the 'T' word again – transitory?** I think it will be retired – think about this – a rewiring of the global trade environment, tax cuts apparently coming down the pipe. Ouch. **Operation Get Out of There Fast**. Say Nothing, Do Nothing. **"Hard data ain't in yet".**

Traders are betting on a slower pace of interest-rate cuts from the Federal Reserve this year, with economic resilience forcing policymakers to remain on hold for longer before easing more sharply in 2026. Just a day ahead of the US central bank's latest policy decision, money markets are pricing three quarter-point reductions this year, one less than at the start of April. About a half point of additional cuts are expected next year, the most priced in for 2026 at any point in the current easing cycle.

Traders will be scrutinizing comments by Fed Chair Jerome Powell on Wednesday — when the central bank is expected to keep its benchmark rate steady at 4.25%-4.50% — for clues on whether President Donald Trump's economic policies are prompting any change in policymakers' view on the timing for further rate cuts. Prior to the customary, pre-decision blackout period, officials urged patience, particularly with higher US tariffs set to fan near-term inflationary pressures.

Market expectations for a cut at the June policy meeting have also faded since Friday, when employment data came in stronger than economists predicted. Monday's April ISM services data also hinted at economic strength, adding to pressures for front-end yields which are particularly sensitive to monetary policy.

Overview of the Australian Bond Market

Australia's 10-year government bond yield fell slightly to 4.31% as latest data highlighted persistent challenges in the country's industrial sector. Although the Ai Group Industry Index rose in April, it remained in contraction for the 33rd consecutive month, with trade and election-related uncertainties weighing heavily on manufacturing—especially in export-exposed areas. This development has reinforced expectations that the RBA may cut its cash rate by 25bps to 3.85% at its meeting later this month.

Elsewhere, top U.S. and Chinese officials will hold talks in Switzerland later this week, marking the first official public engagement between the world's two largest economies aimed at resolving a trade war.

ETFs -Domestic & Global

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.

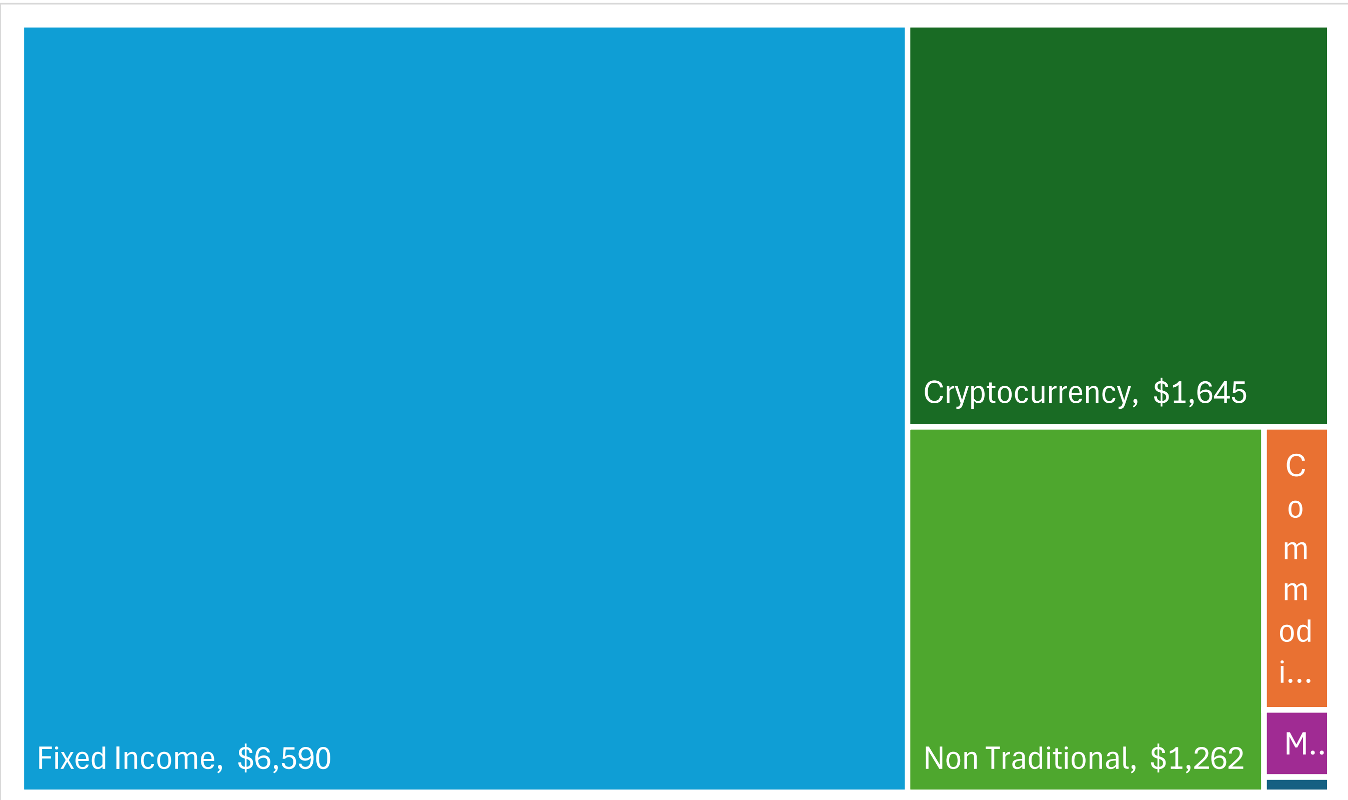
Artificial Intelligence ETFs rank second with USD678 million in net inflows. AI remains the defining technological revolution, with investor appetite fuelled by relentless innovation in large language models, robotics, and autonomous system. Meanwhile, **Clean Energy ETFs** posted the weakest Q1 2025 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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